

Recommendation on Capitalization Rate and Landlord Share

Matthew Elliott 10/30/2017

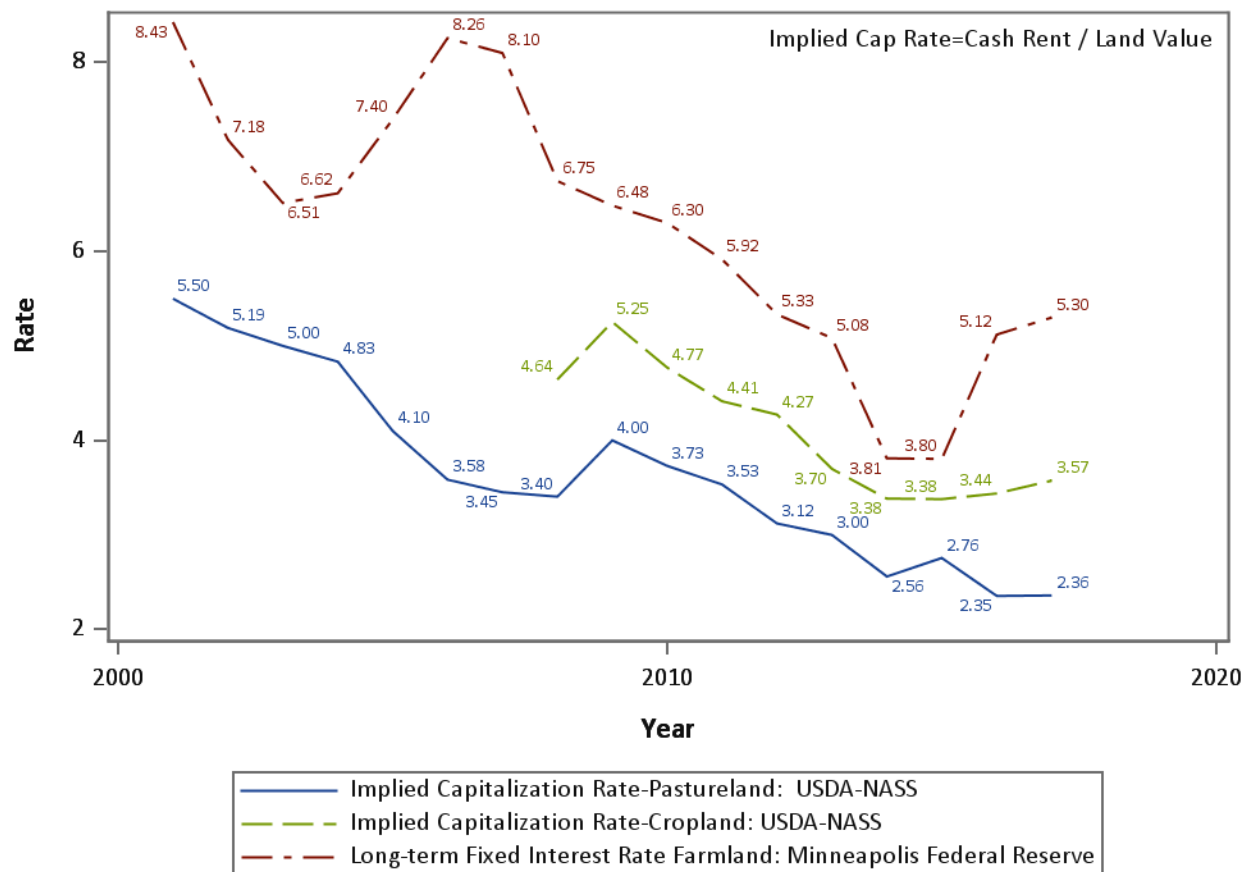
Uniform Standards of Professional Appraisal Practice

- Appraisal Standards Rule (1-4)
 - Income Approach
 - Analyze rental data and potential earnings capacity
 - Analyze available rates of capitalization or rates of discount
 - Base projections of future rent and expenses on reasonably clear and appropriate evidence

Capitalization Rate

- Market Capitalization Rate used in the productivity formula of 6.6% is above the implied capitalization rates in South Dakota for ag land.
- Current fixed long-term interest rate for ag land is 5.3% according in the MSP Federal Reserve Region (Source: MSP Federal Reserve).
- Current implied average capitalization rate for cropland is 3.6%, and pastureland is 2.4%, in South Dakota (Source: USDA-NASS).

South Dakota Implied Capitalization Rates and Long-term Fixed Farm Real Estate Interest Rate

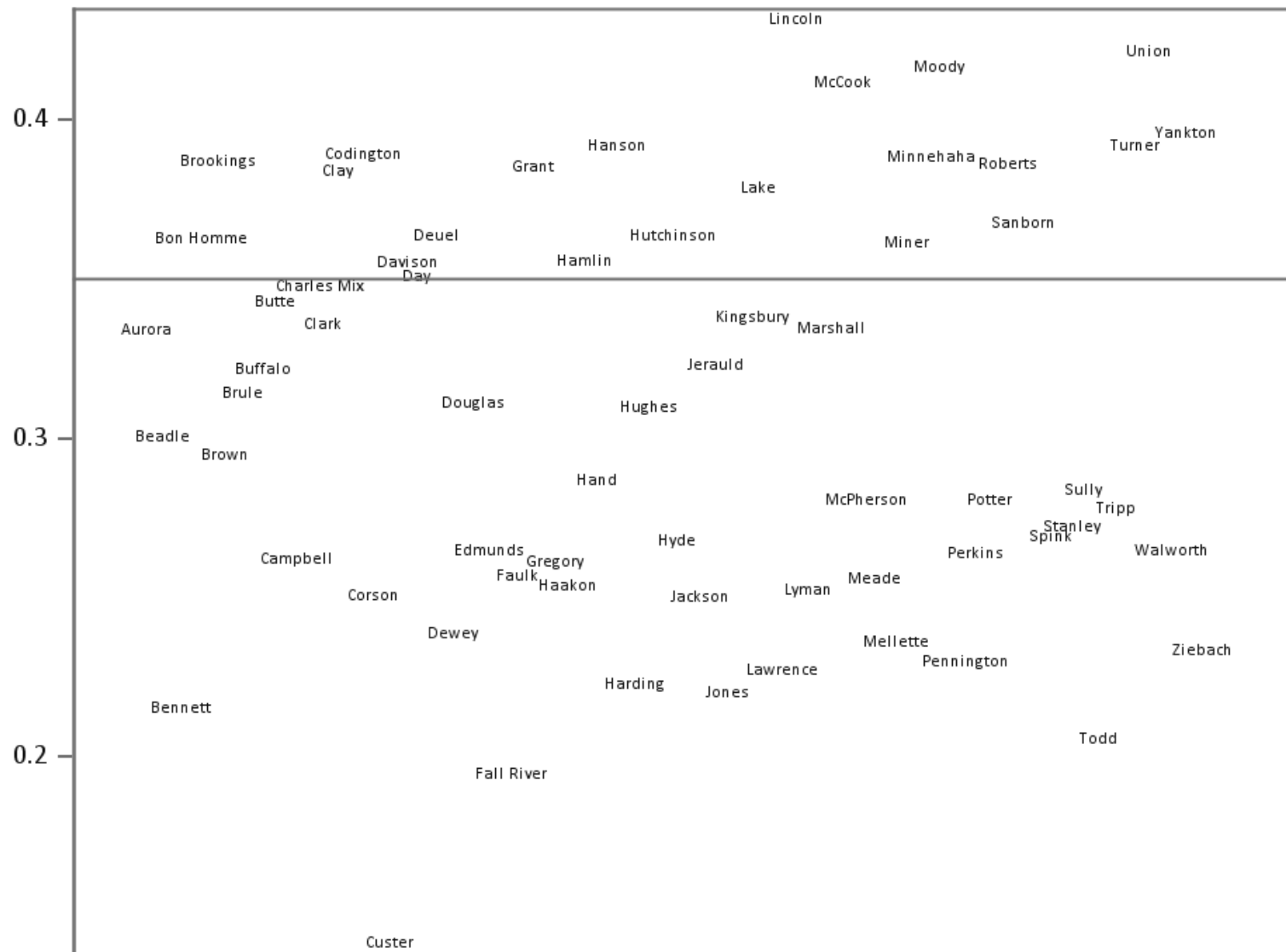


Landlord Share

- Statewide average cropland cash rent estimation is below the statutory 35% of the 8 year Olympic Average.
 - Historical cash rent on average is approximately 31% of the 8 year Olympic Revenue Per Acre across South Dakota (source: USDA-NASS).
 - Percentage of at-risk revenue is expected to be higher than fixed cash rental rates (risk premium).
 - Appraisal of ag land should include a risk-adjusted rate of return reflective of the market's willingness to bear risk.
- Individual counties fixed cash rental rates are above and below the 35% rate.
- Generally, cropland cash rent has diverged from the 35% landlord share since 2010.

NASS Cropland Rent and Olympic Avg Landlord Share

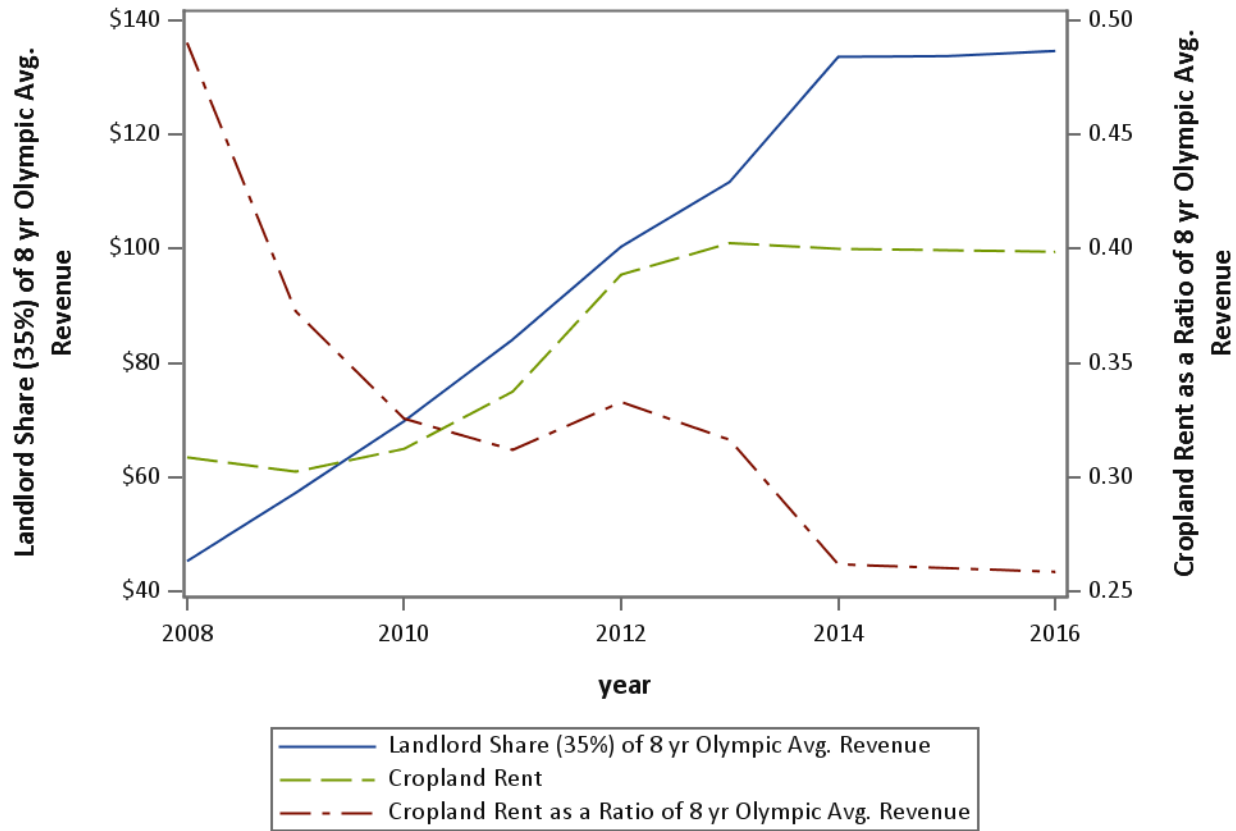
Cropland Rent as a Ratio of 8 yr Olympic Avg. Revenue

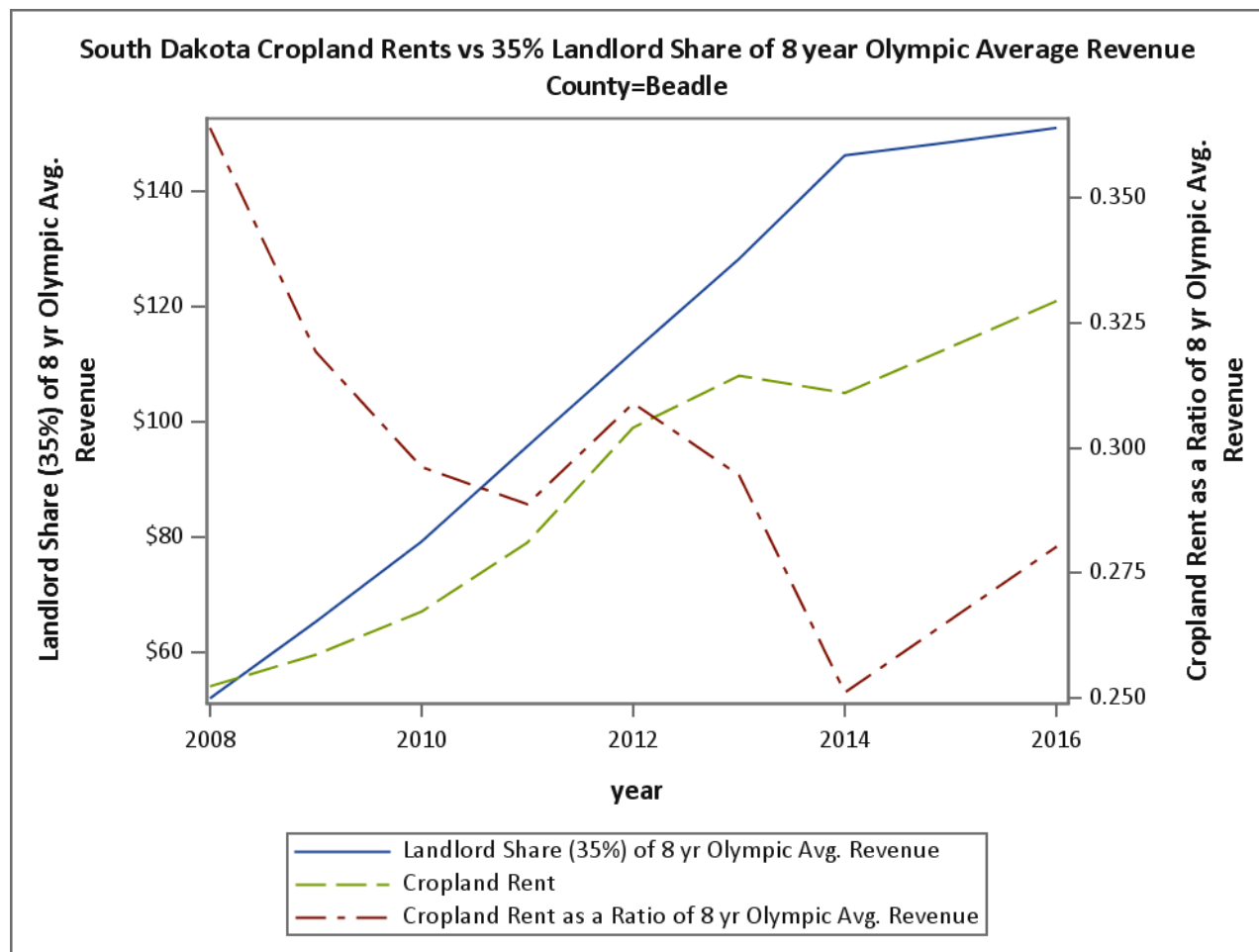


SDSU Recommendations Regarding the Capitalization Rate and Income Capacity

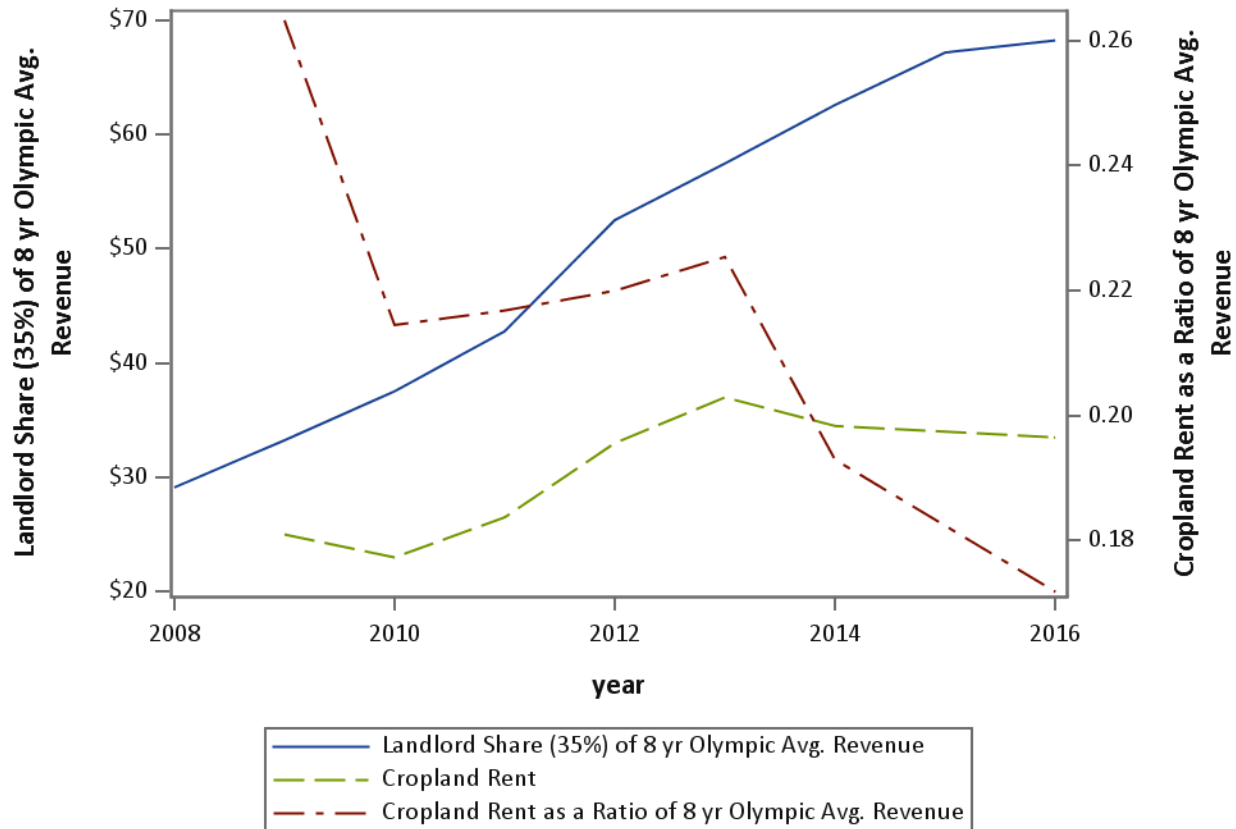
- The higher implied capitalization rate offsets the lower cash rent estimation in most counties
- If the policy regarding the capitalization rate was changed to reflect the market implied cap rate, an adjustment to the landlord share would be warranted.
- Ag capitalization rate will increase with Fed fund rate policy, currently forecasted to increase from 1.4% to 2.7% by 2019.
- Ag land implied capitalization rate includes market speculation on appreciating ag land assets as well as the capitalized net income that could be generated.

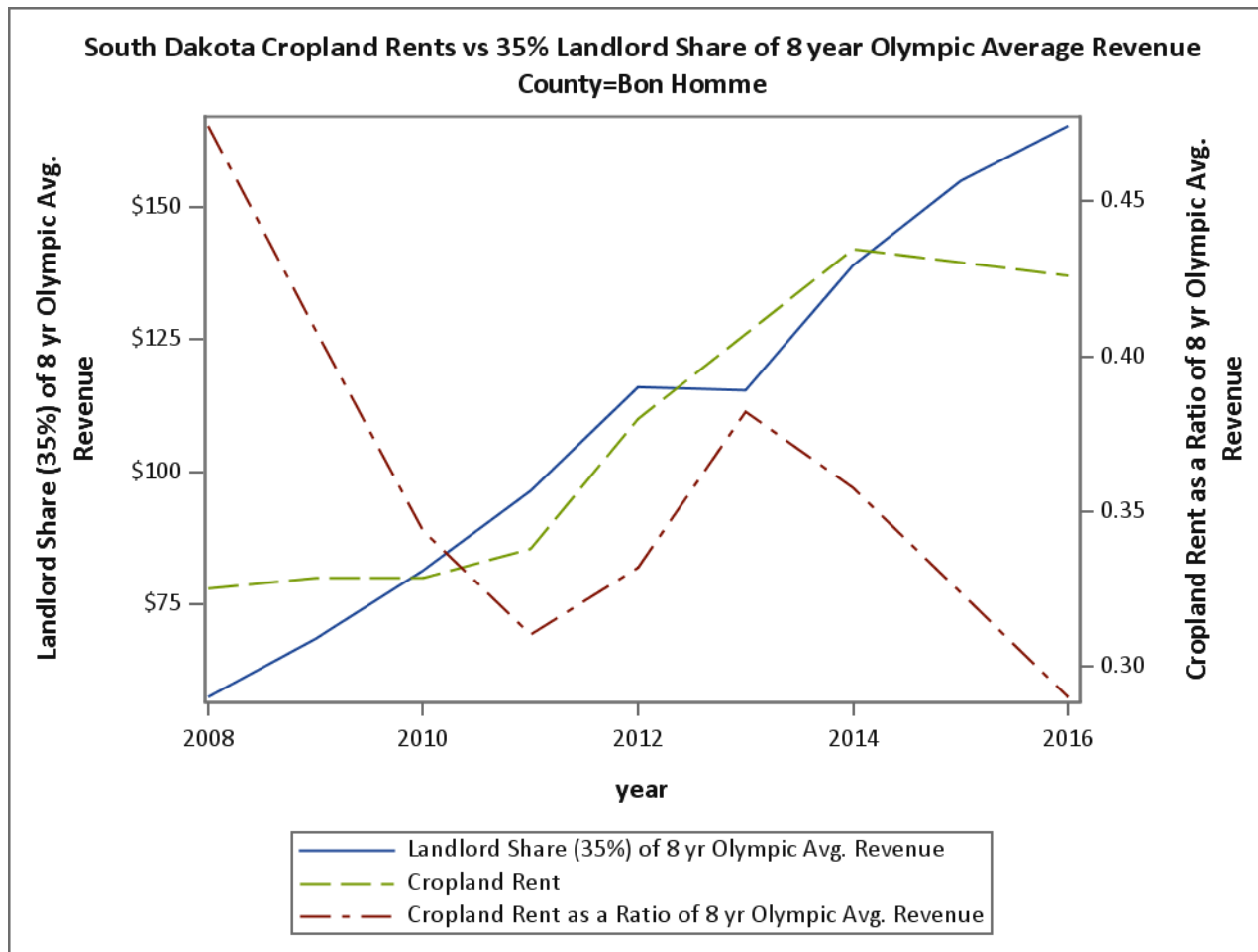
South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Aurora



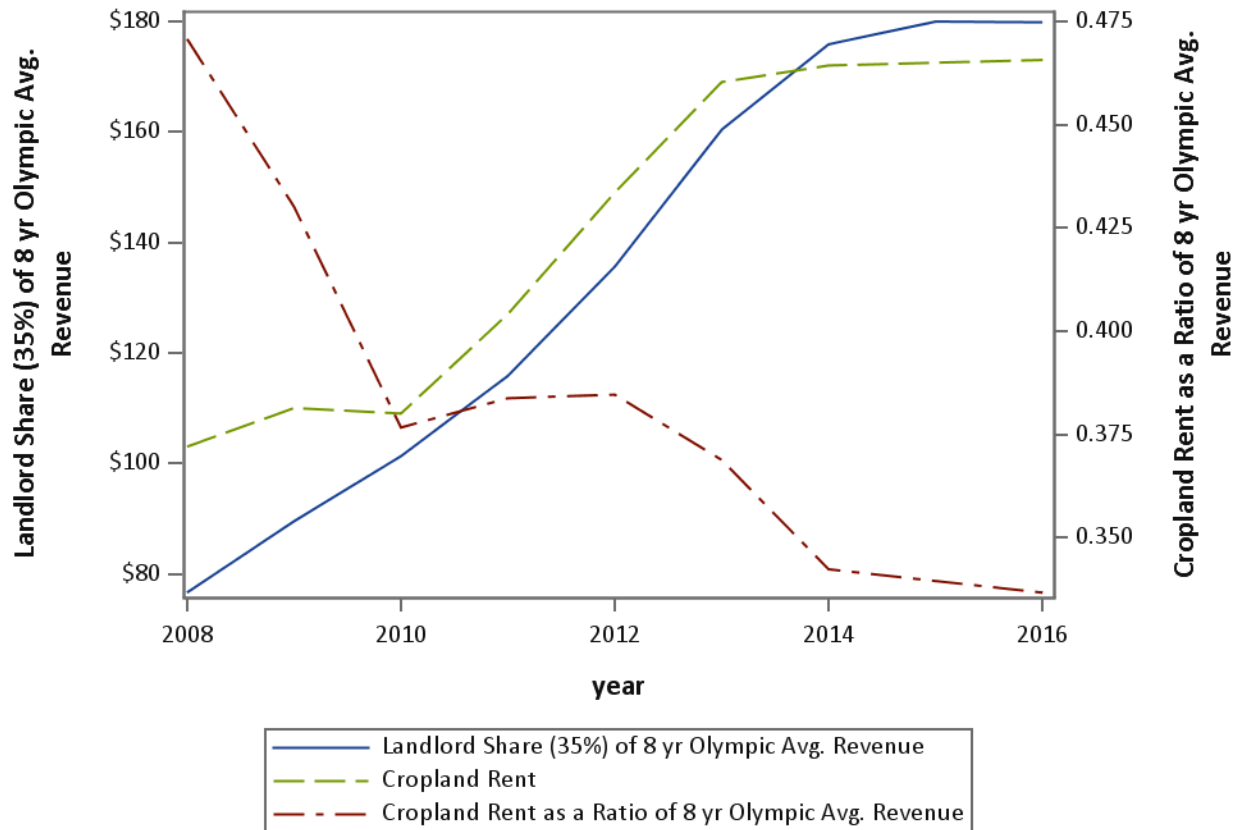


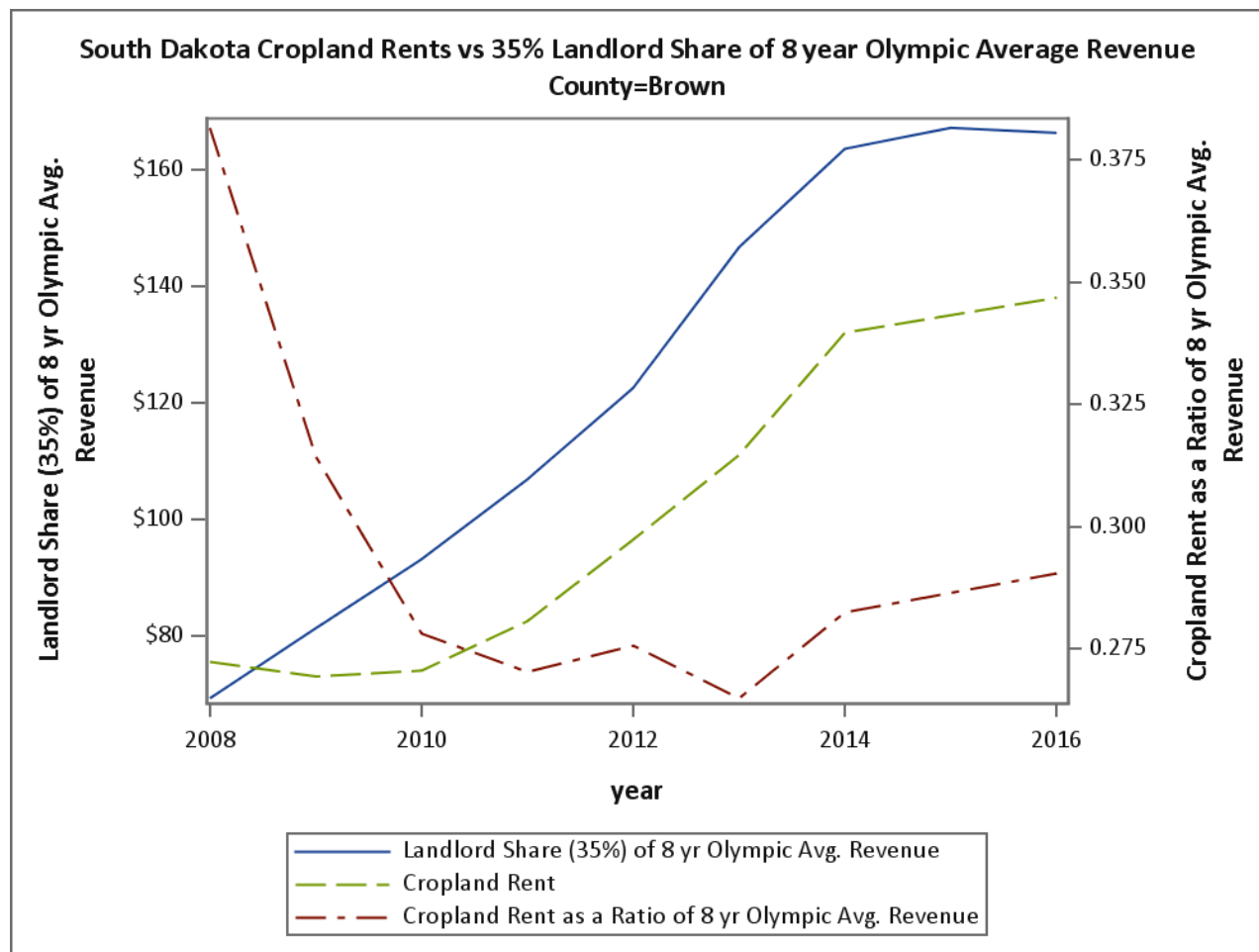
**South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Bennett**

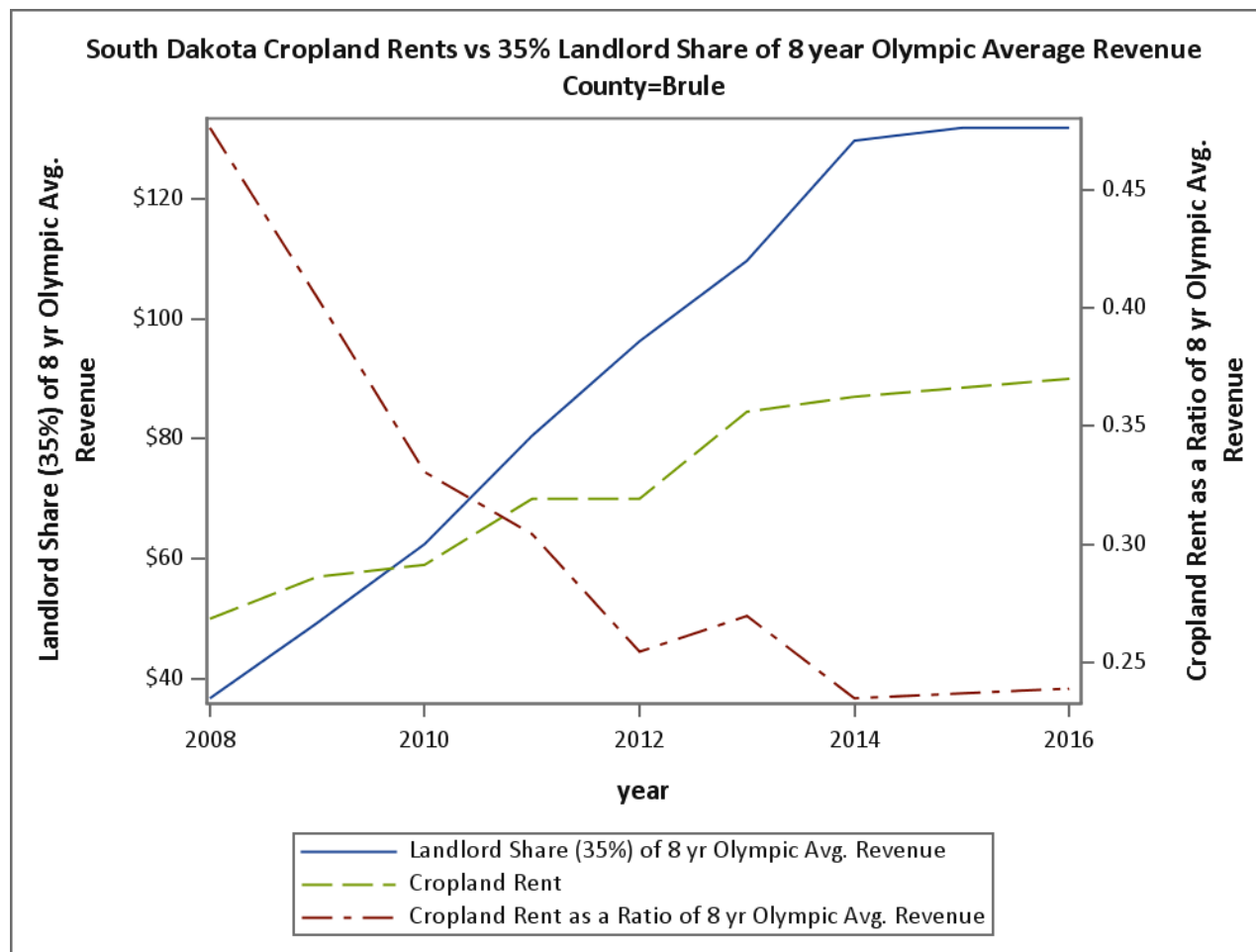




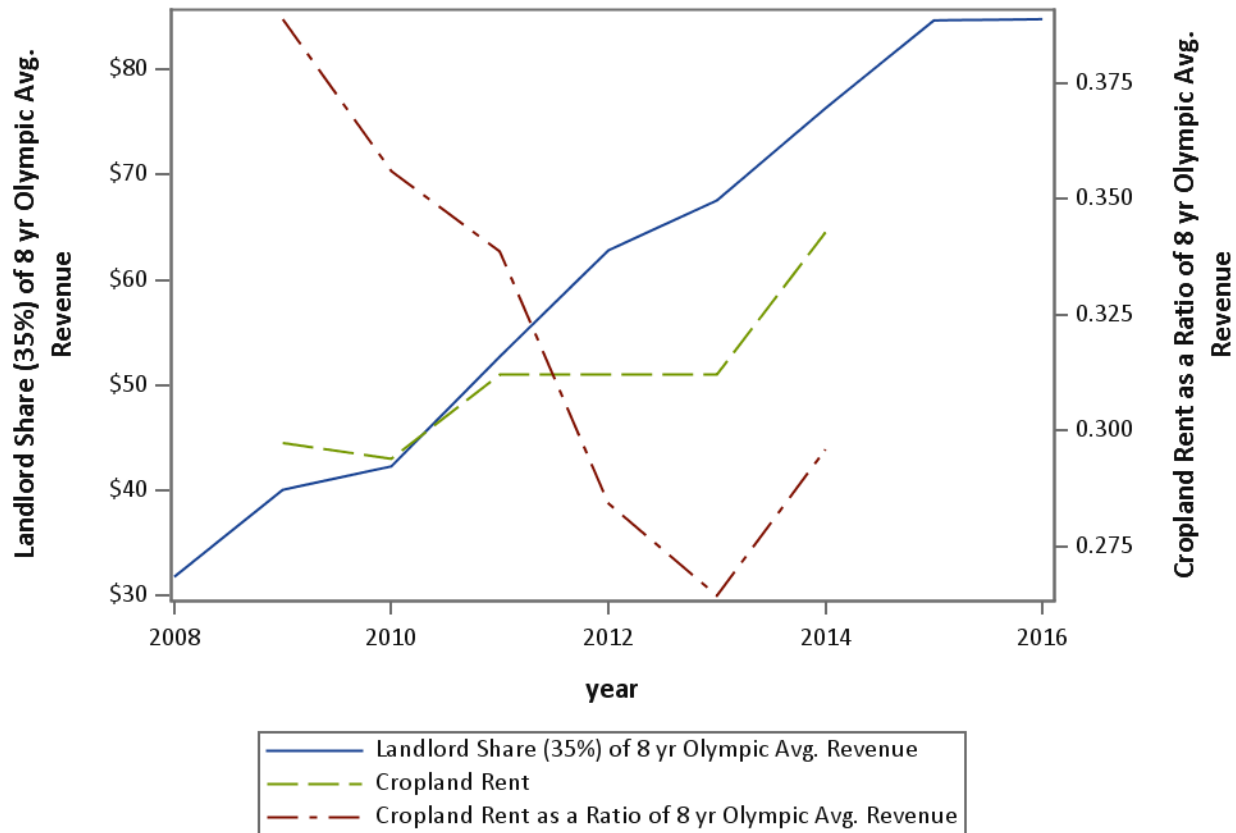
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County=Brookings**

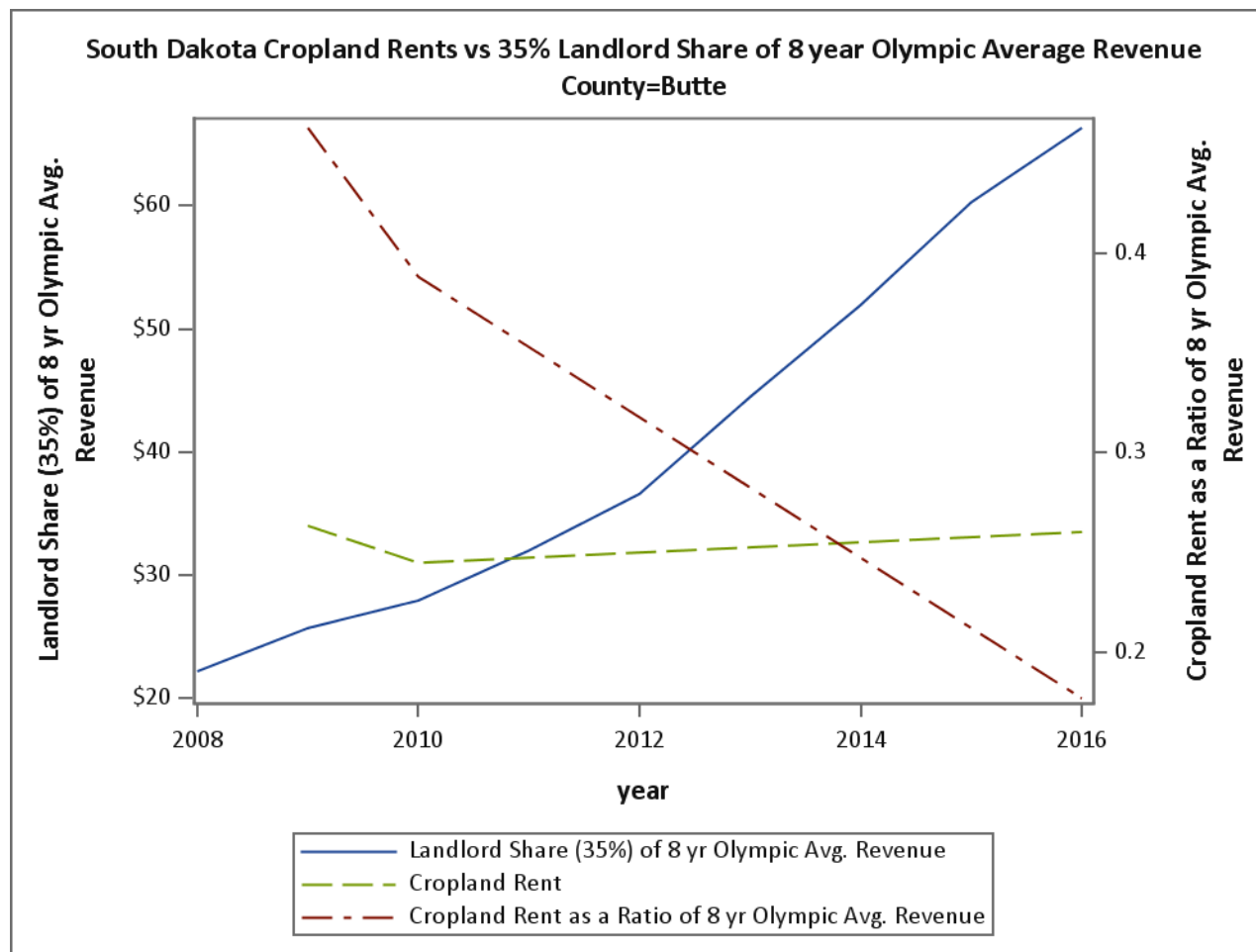




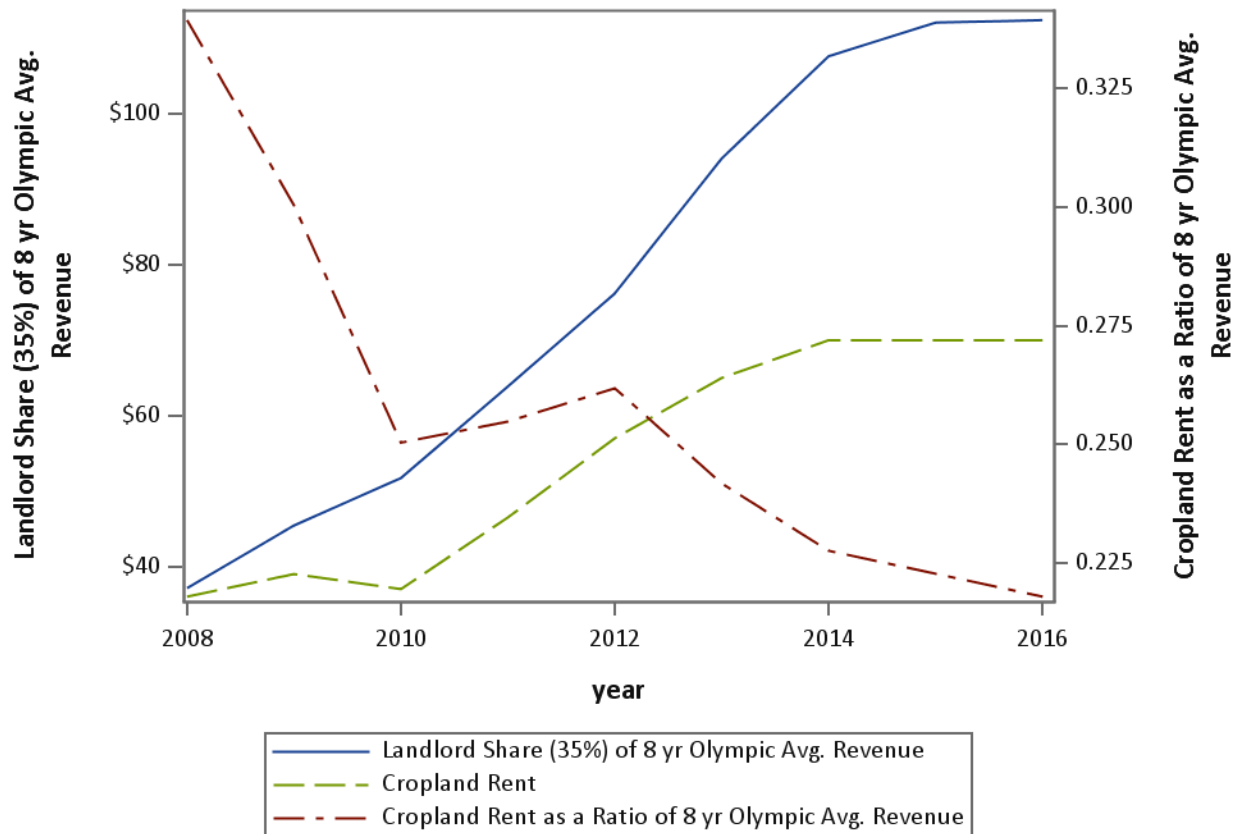


South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
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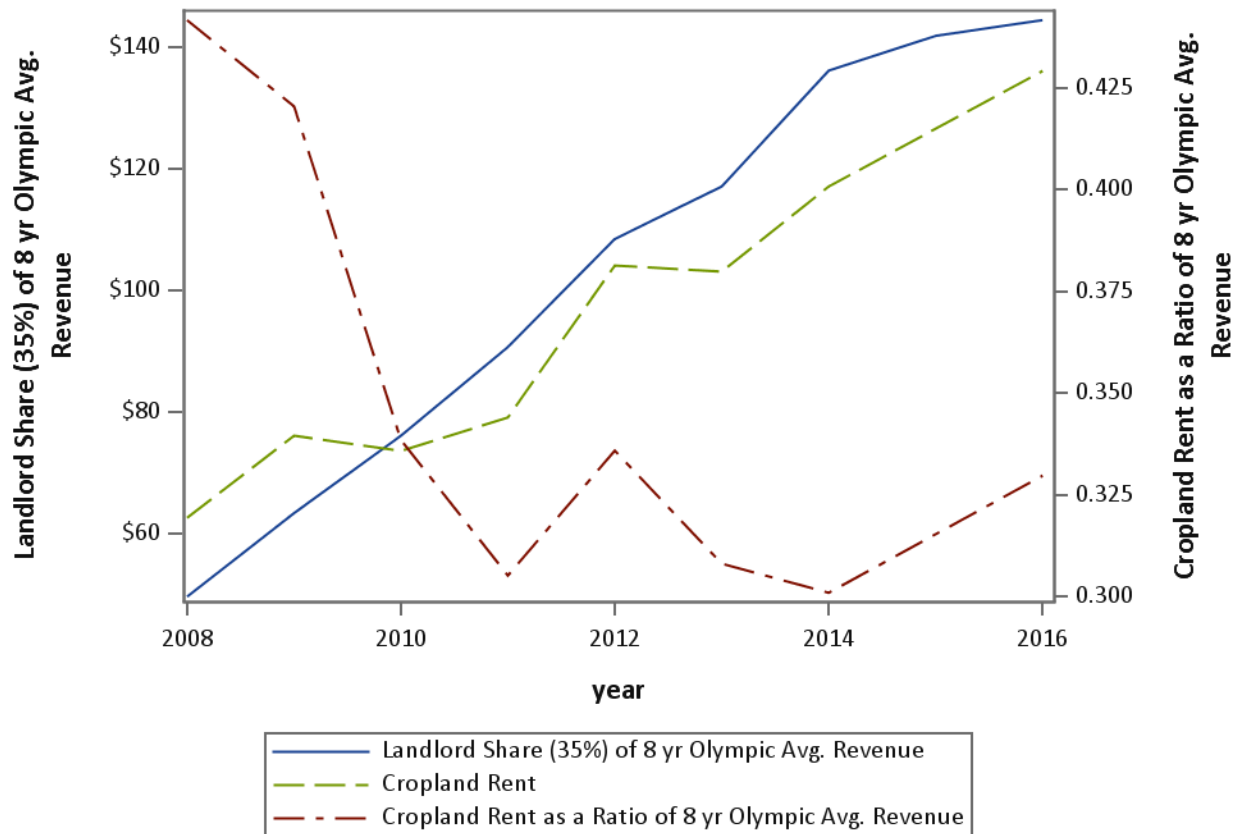


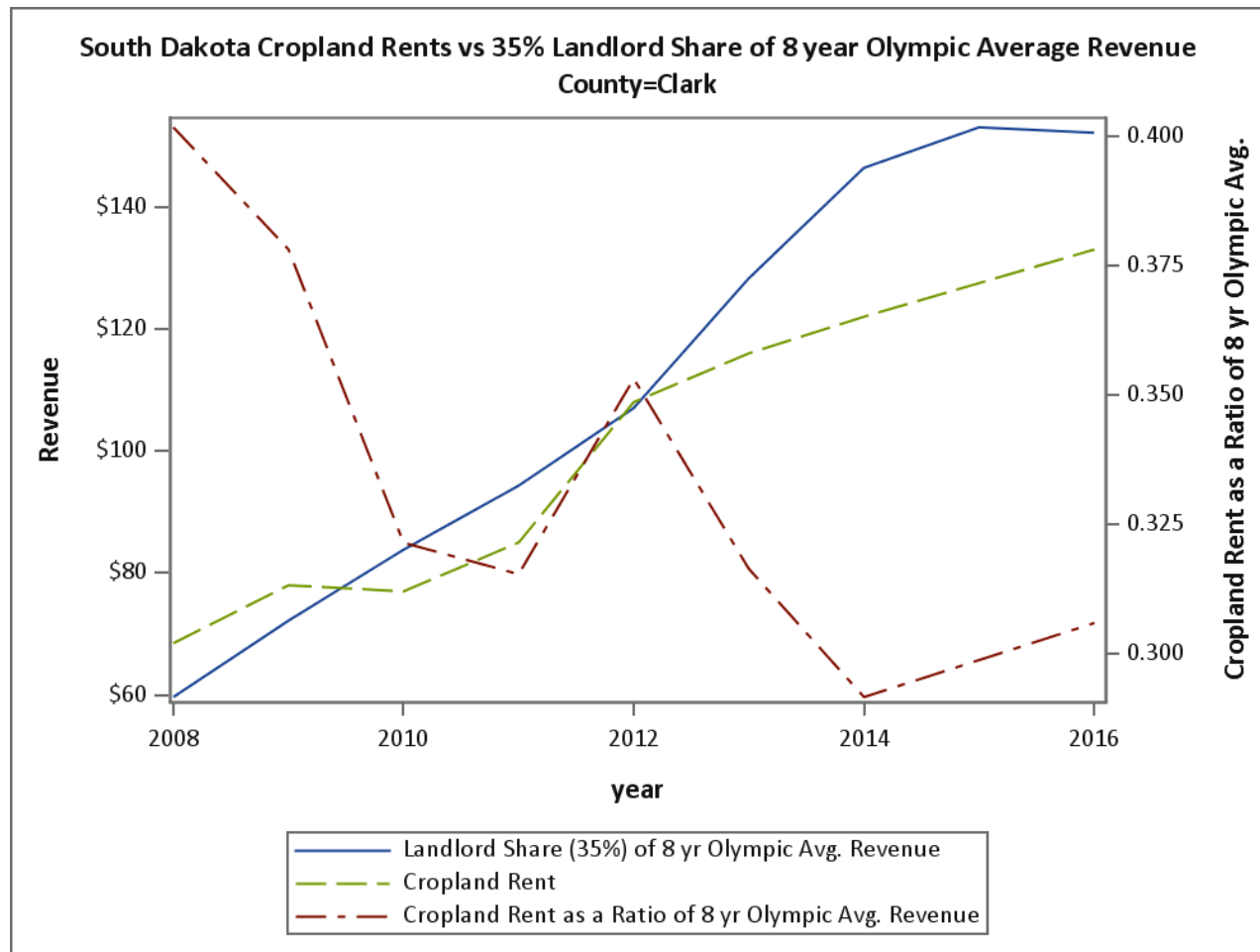


South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Campbell

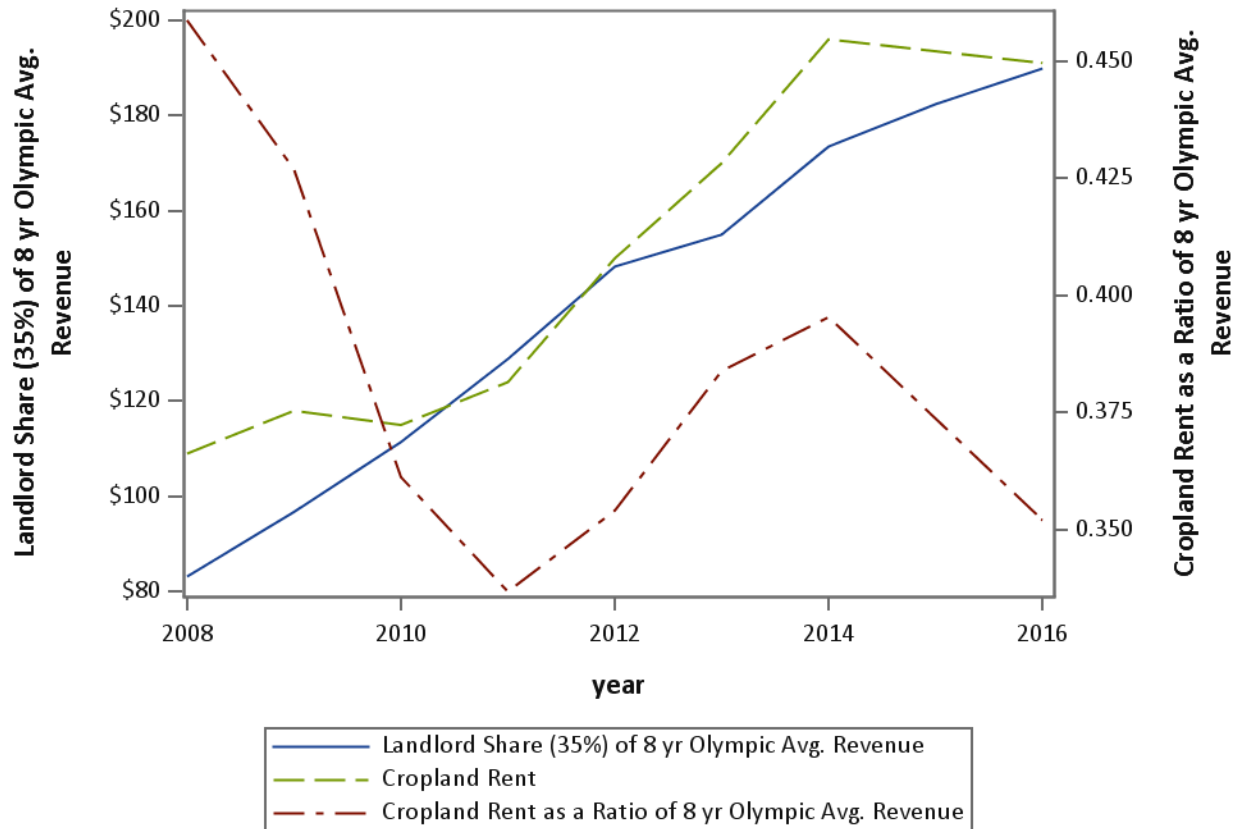


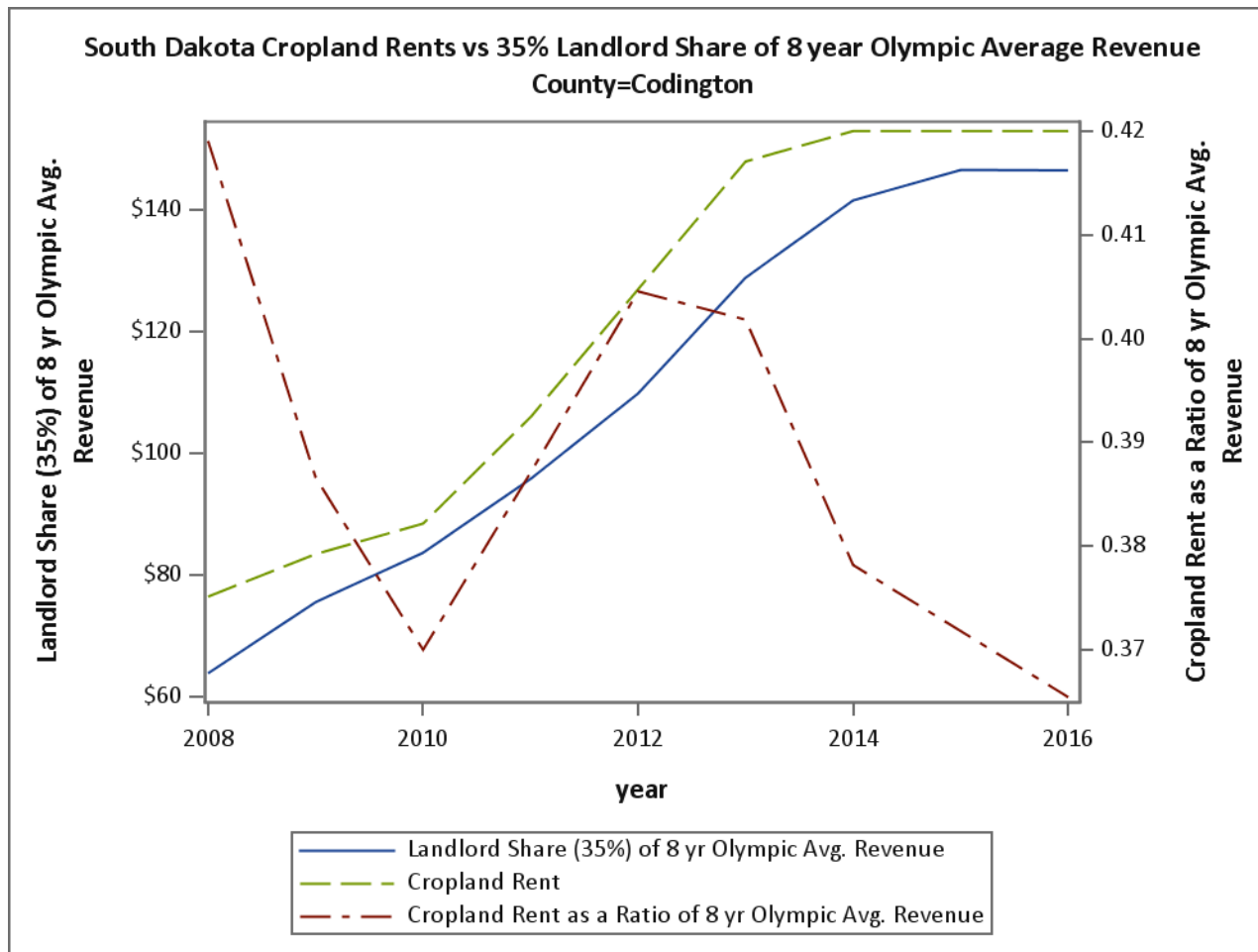
South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Charles Mix



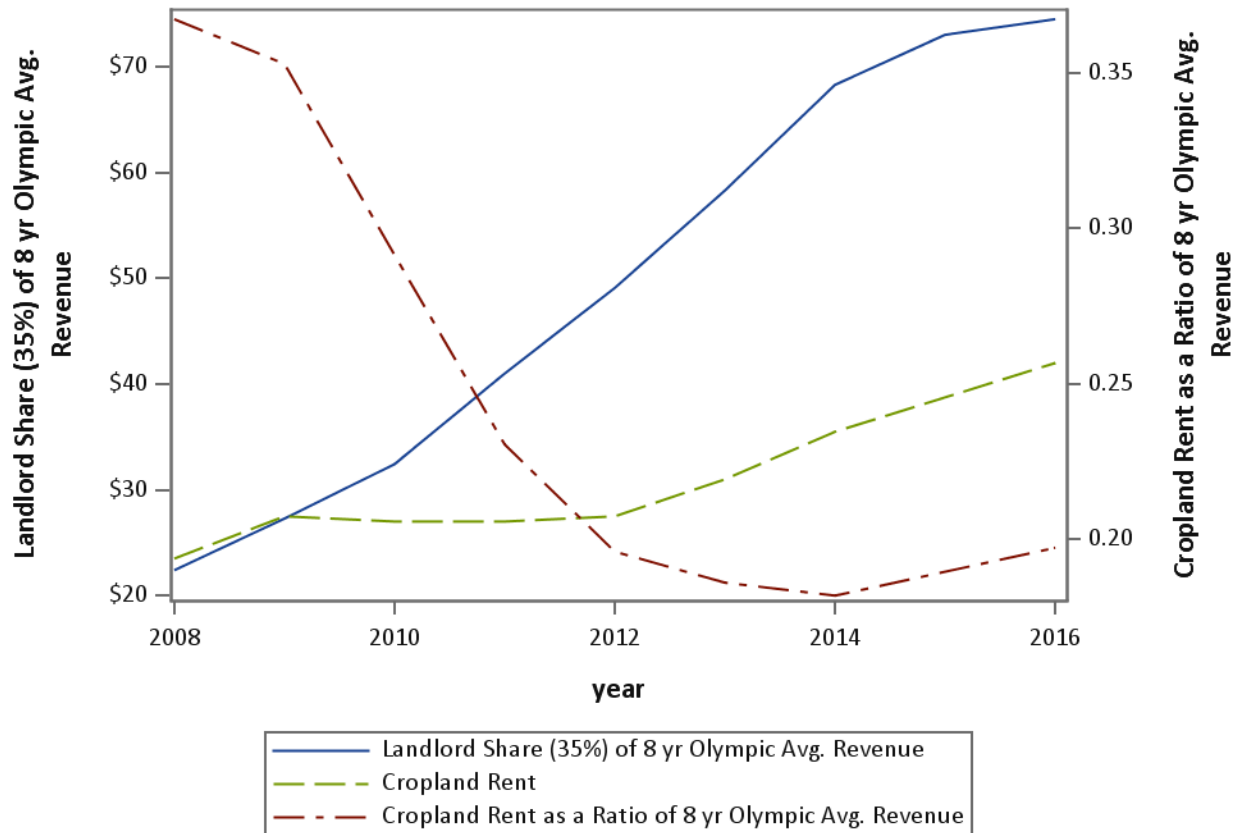


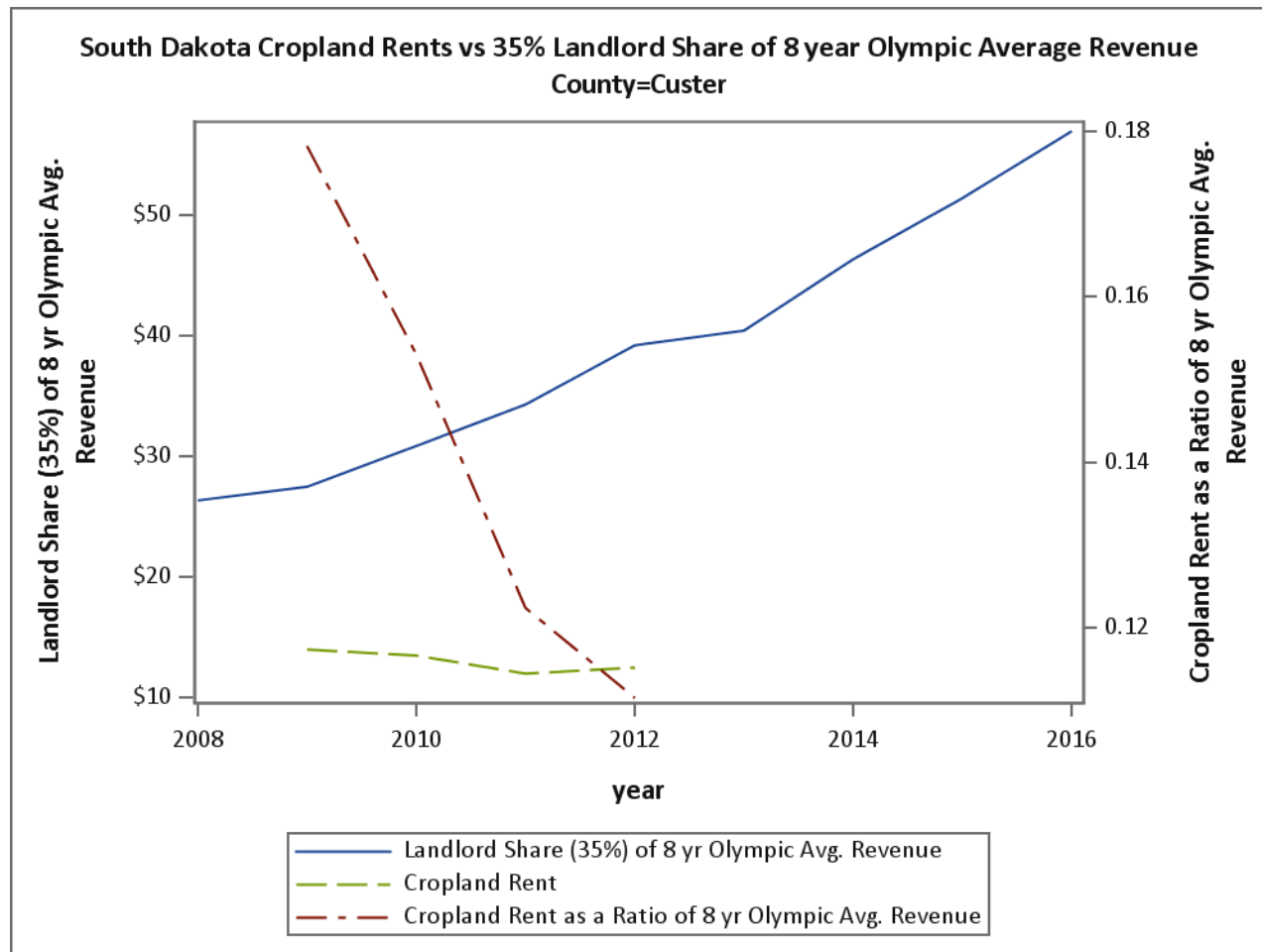
**South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Clay**



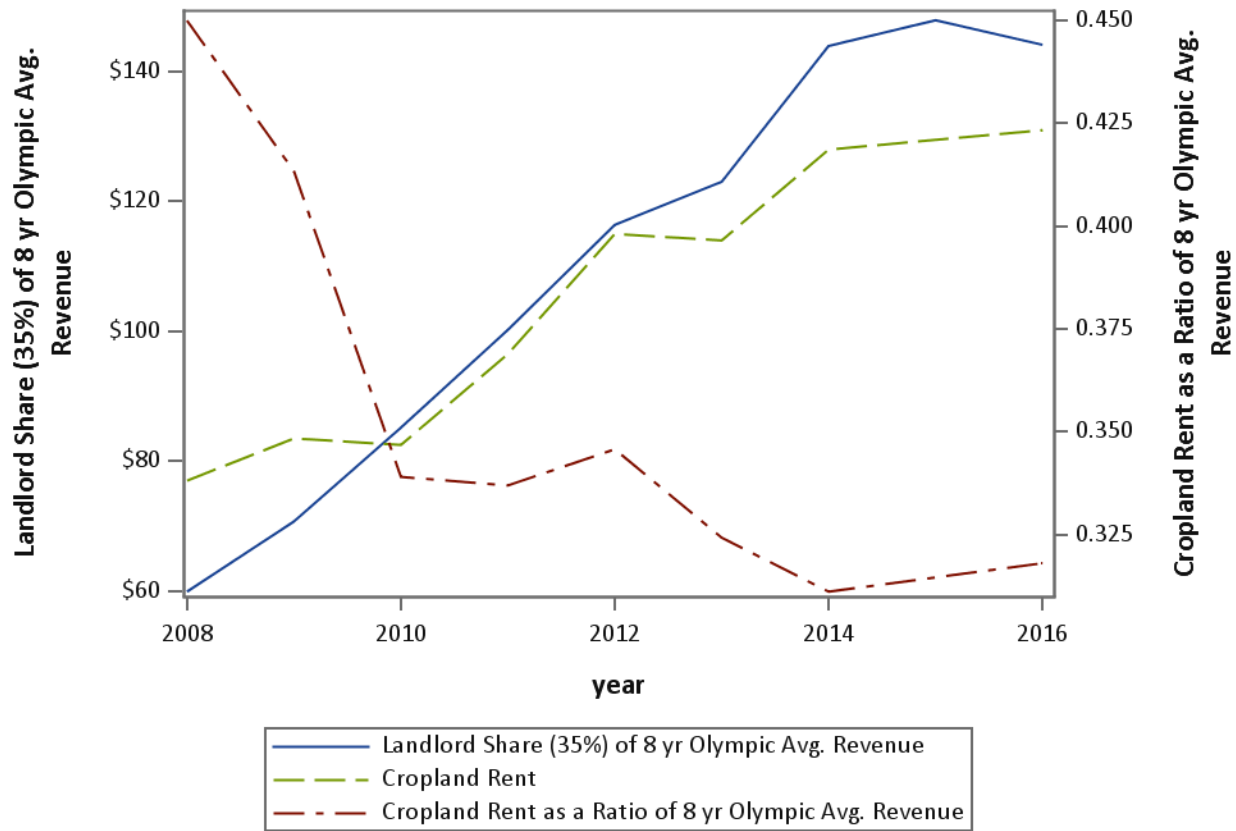


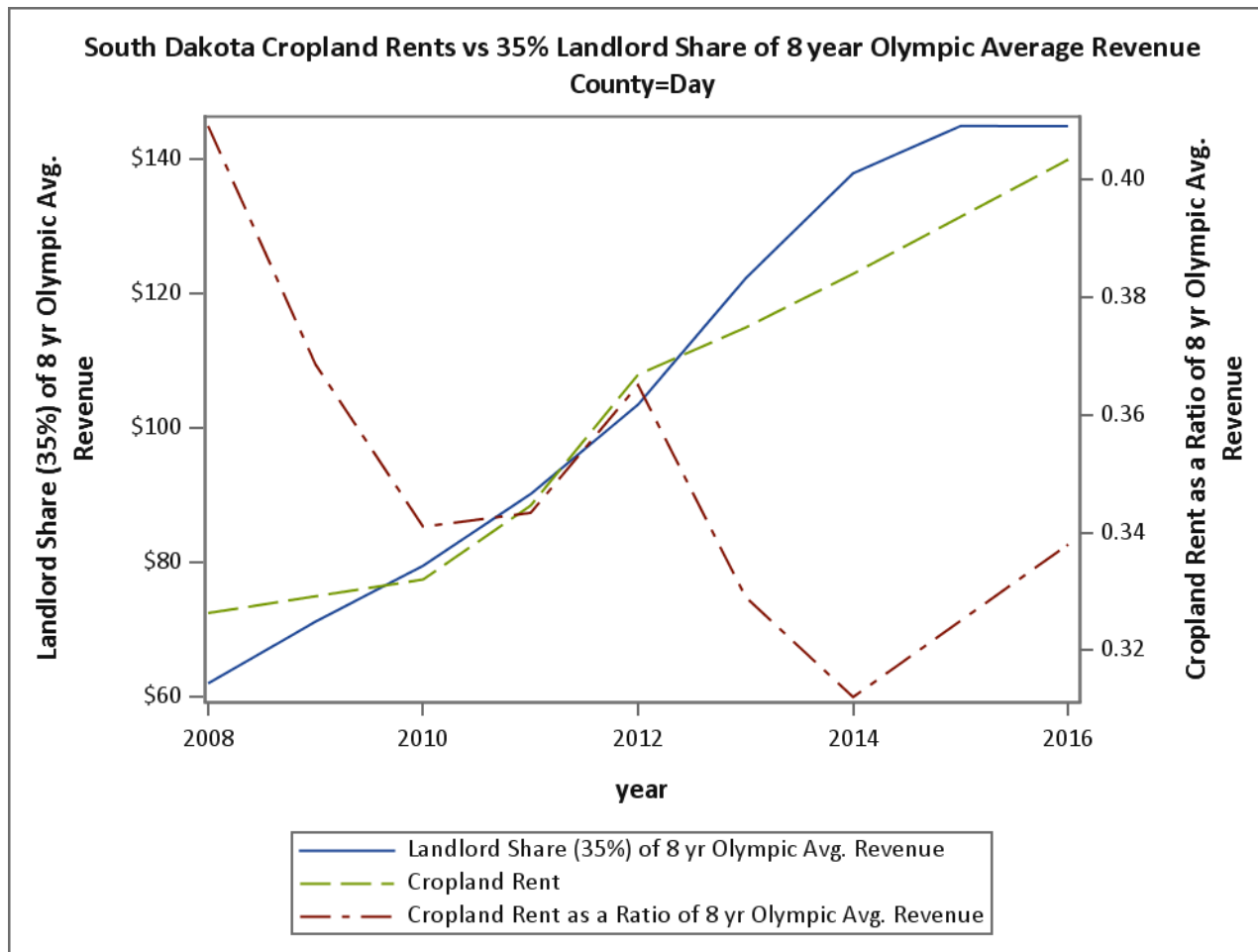
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County=Corson



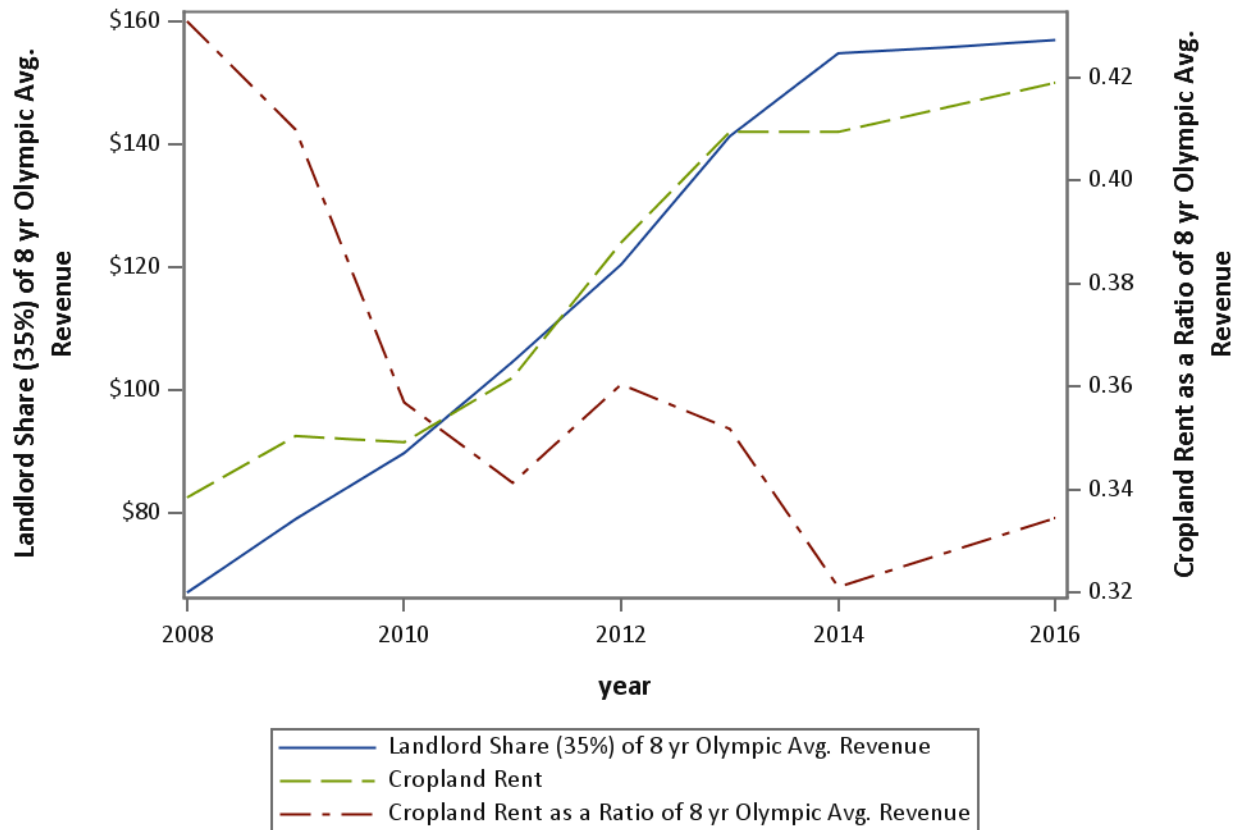


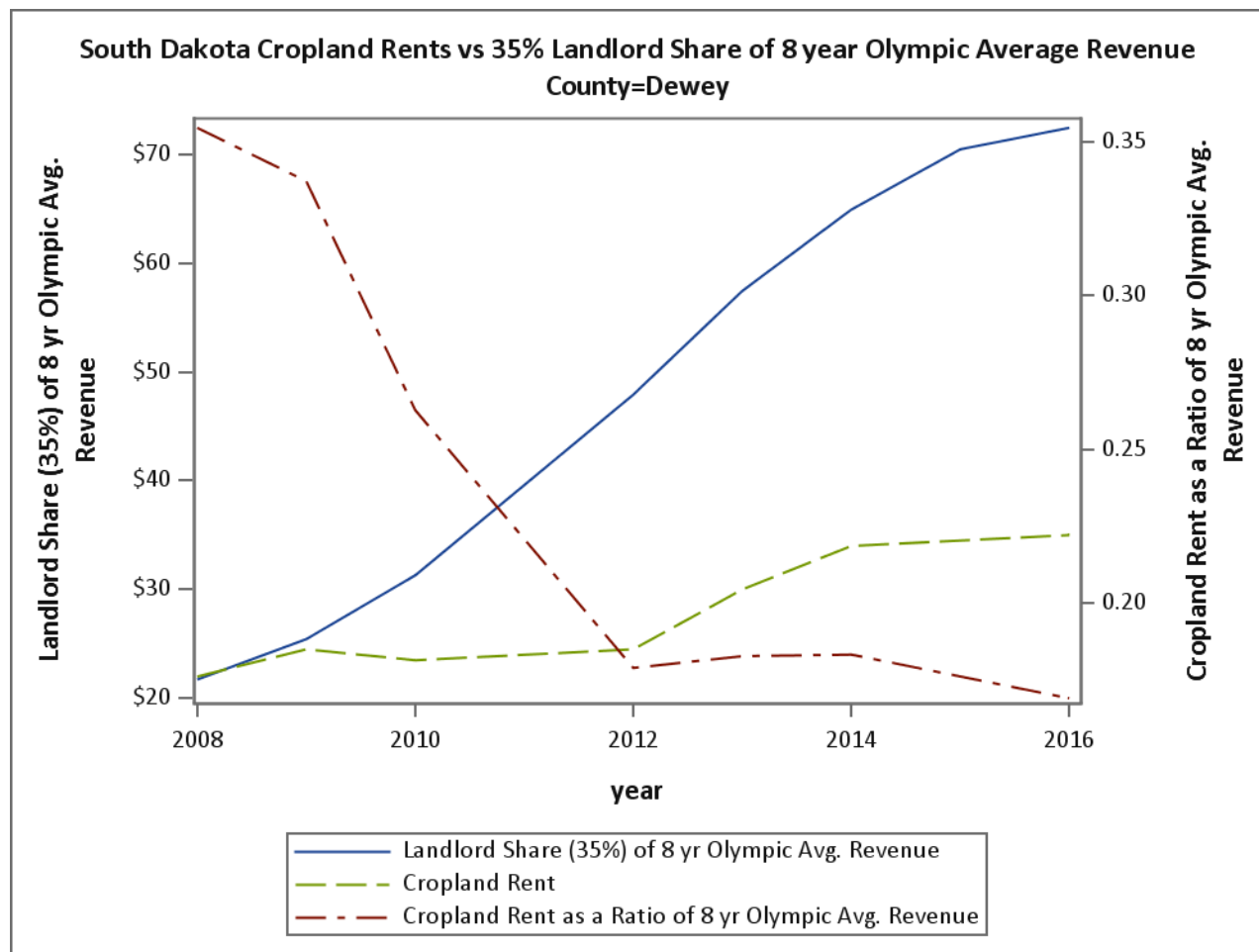
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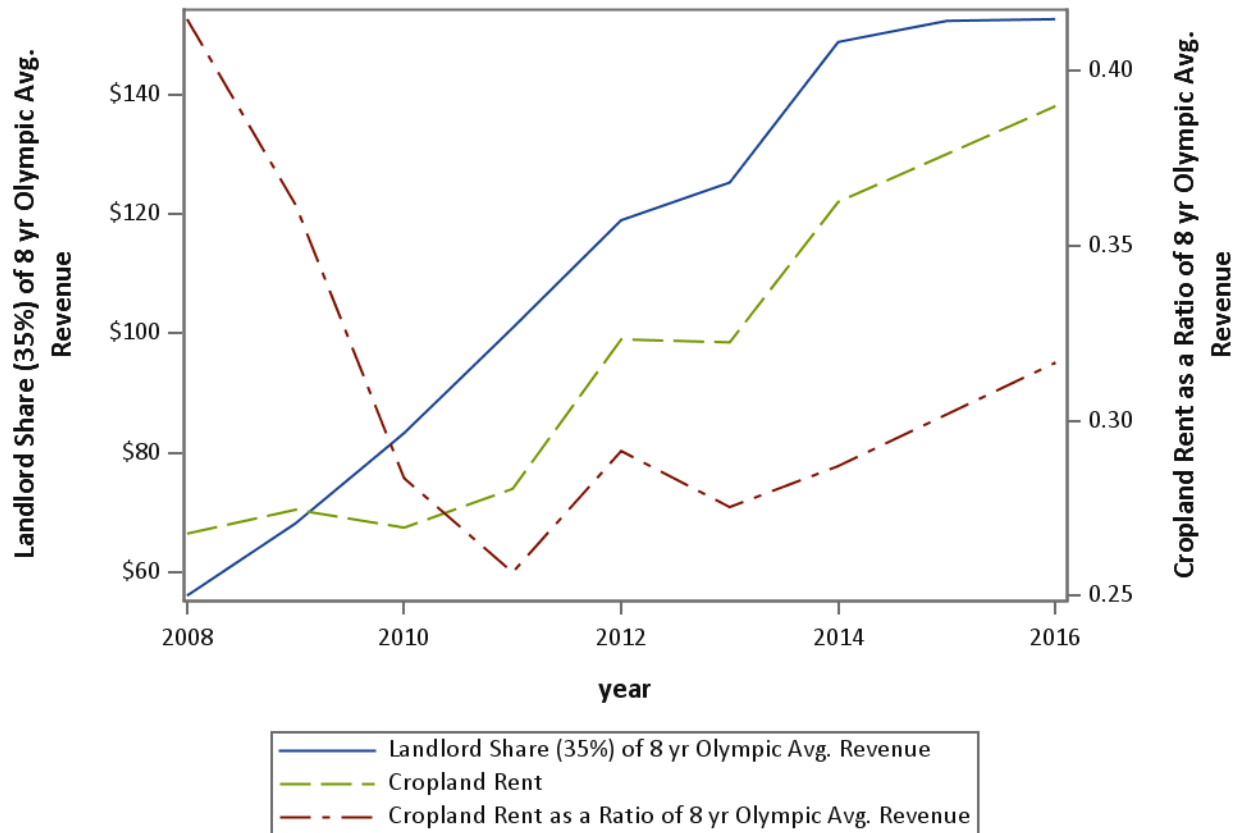


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County=Deuel**

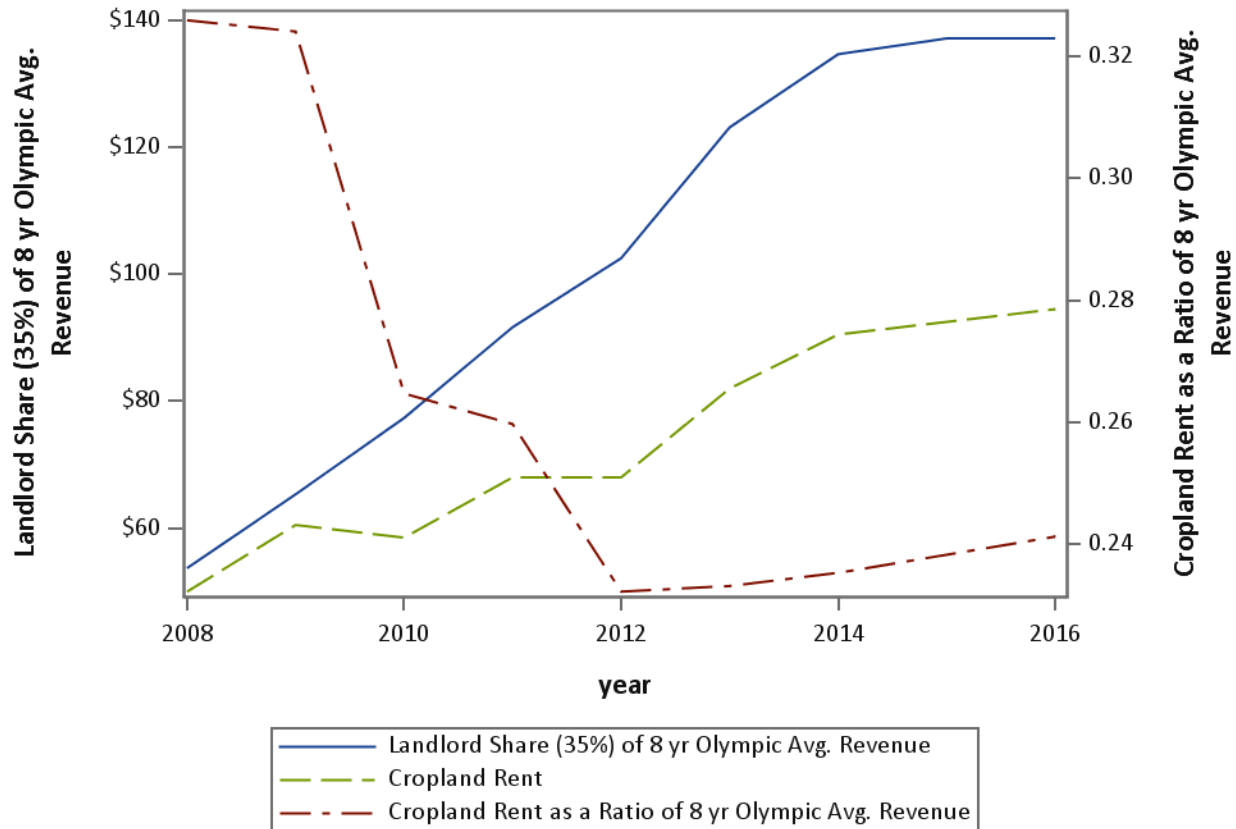


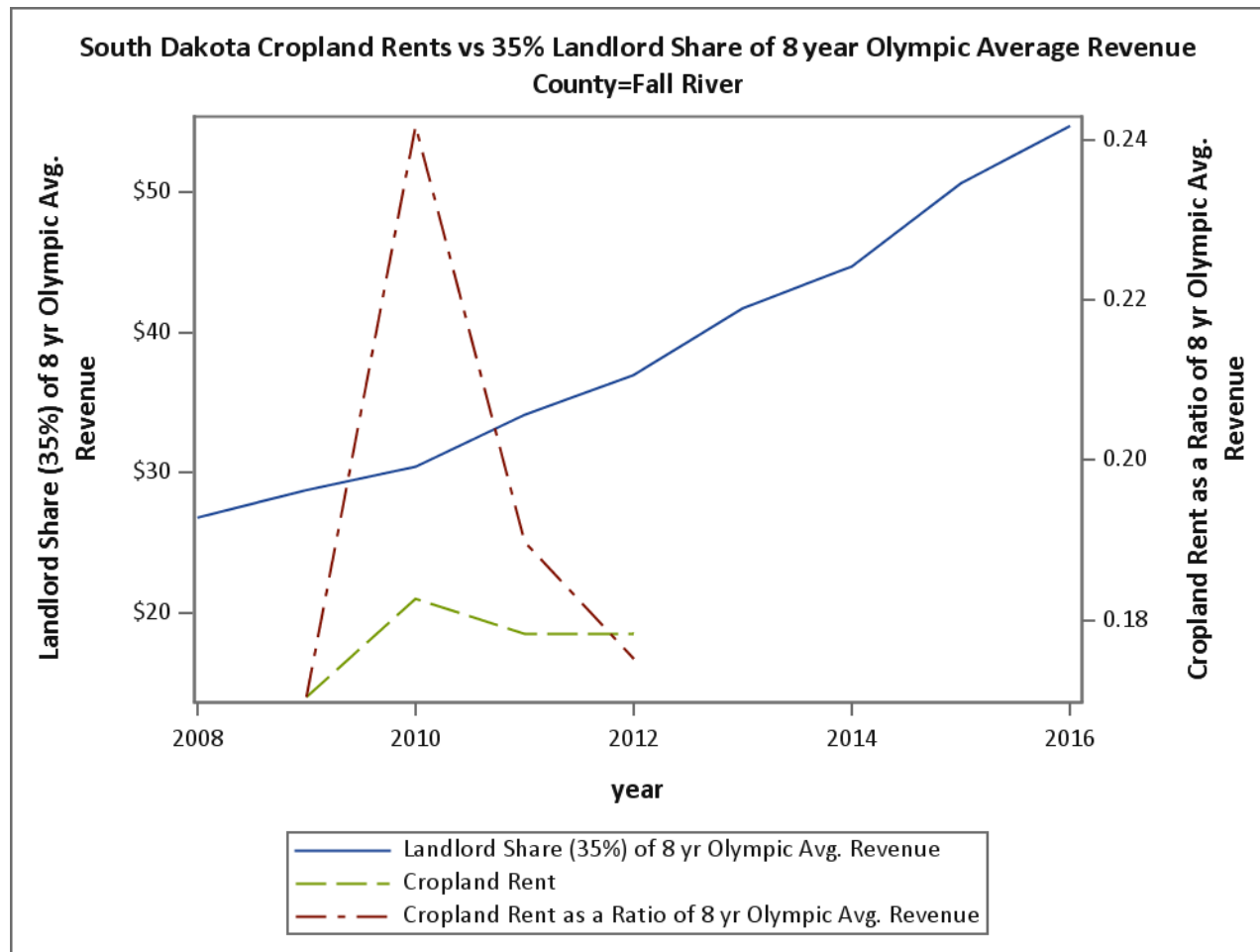


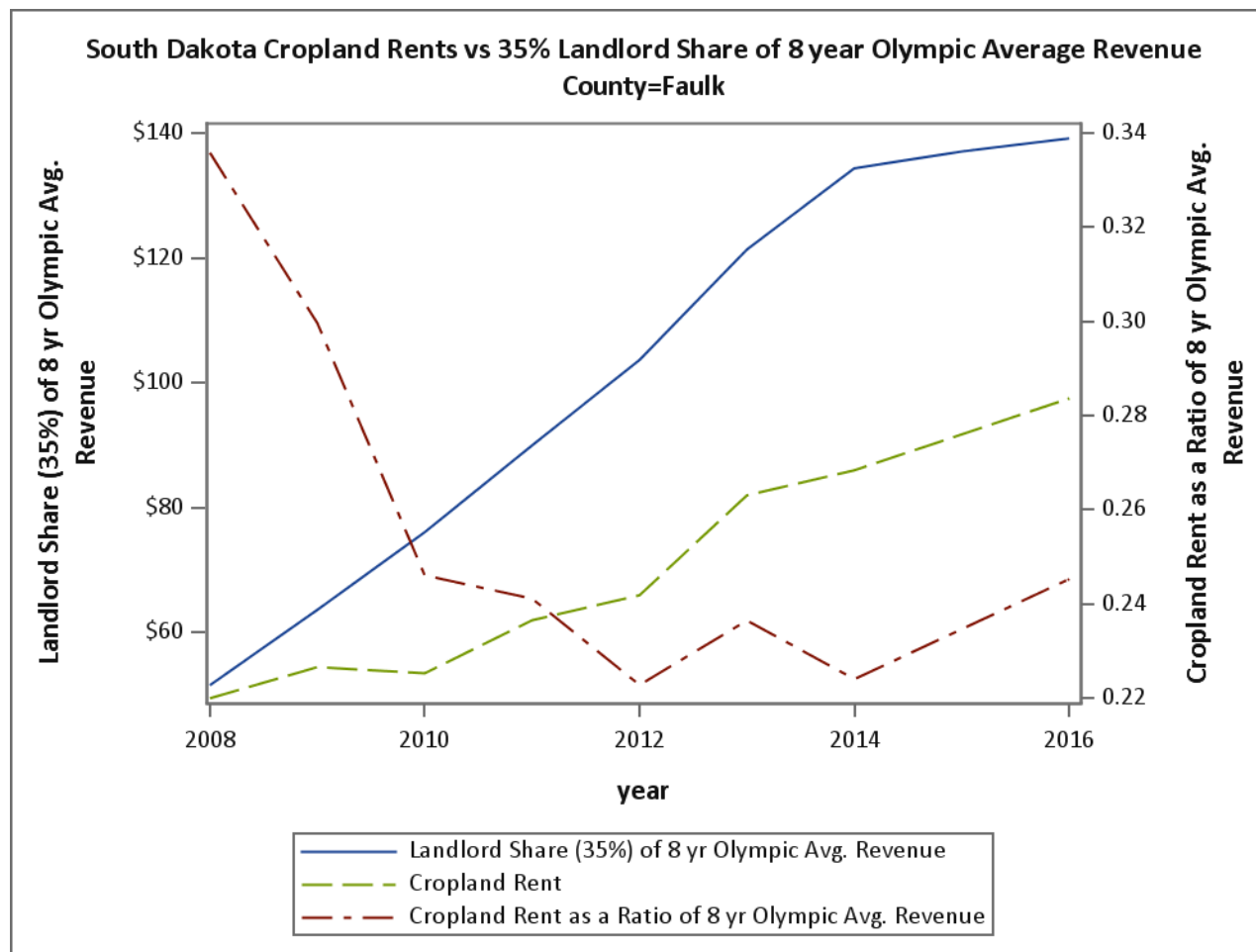
South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Douglas



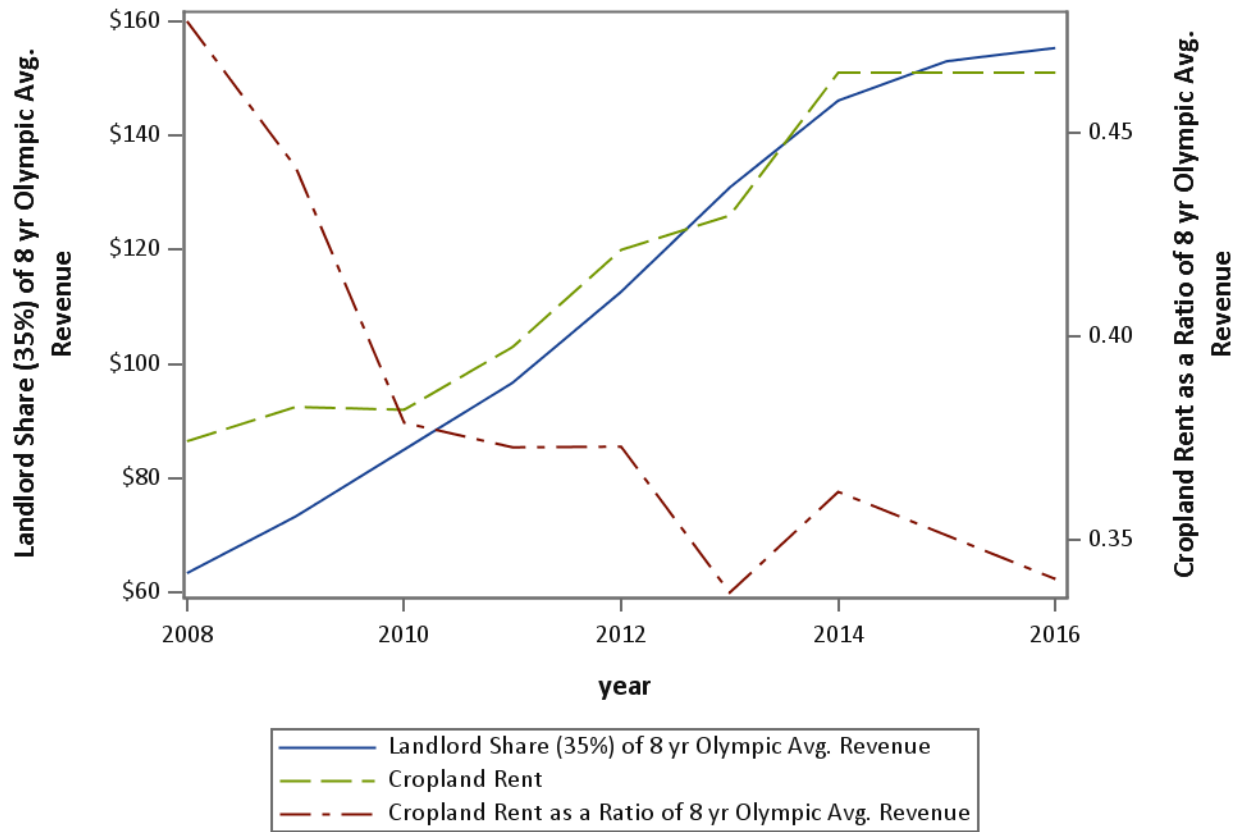
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County=Edmunds

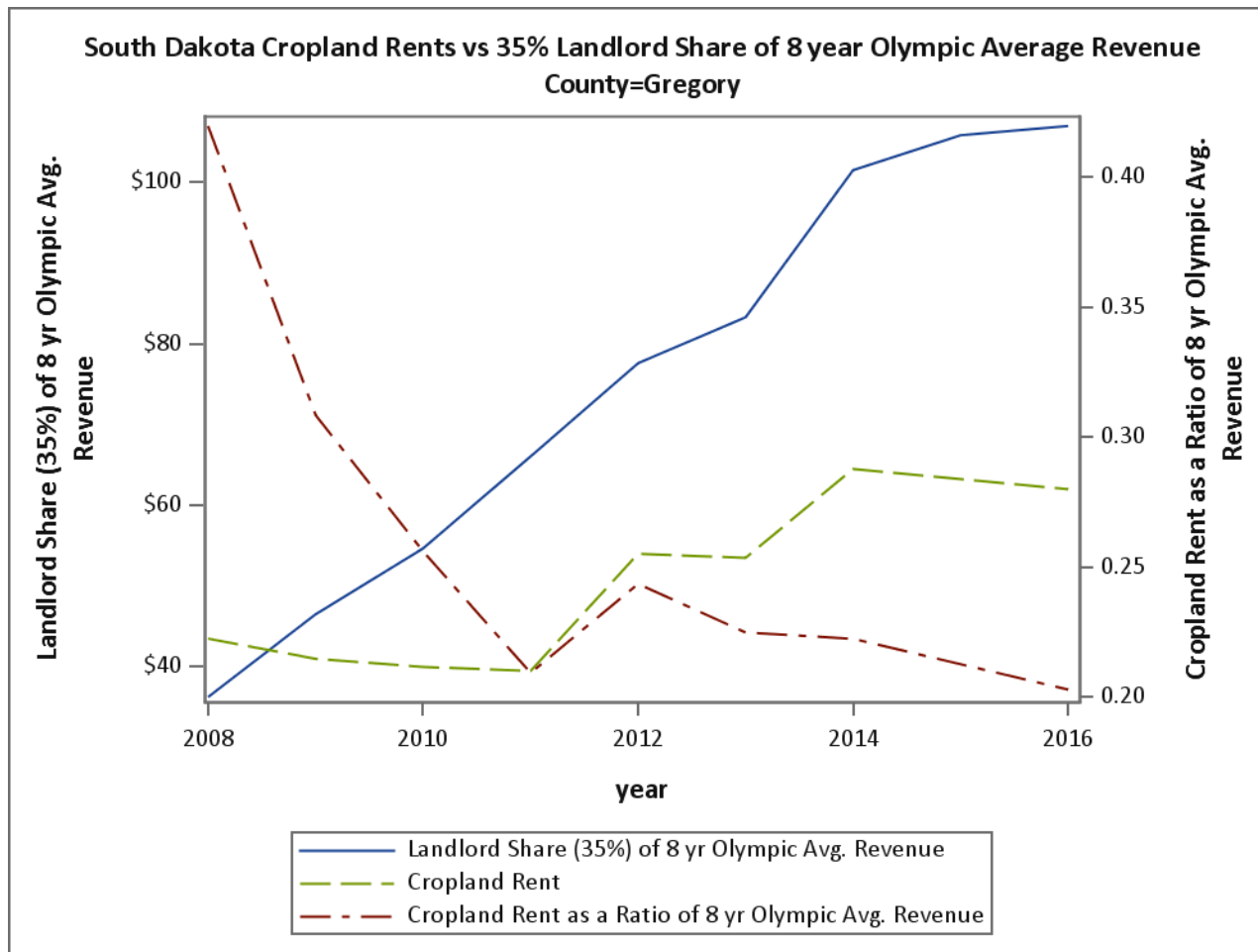




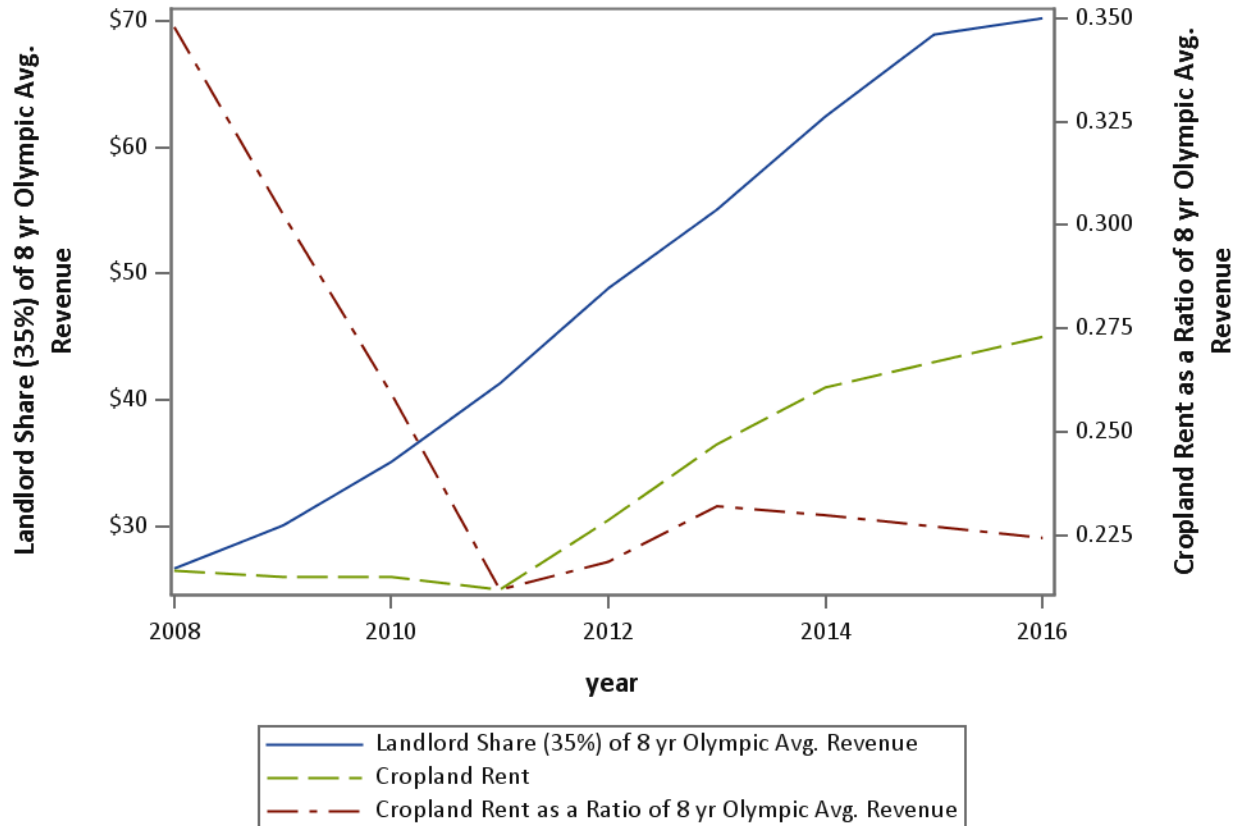


**South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Grant**

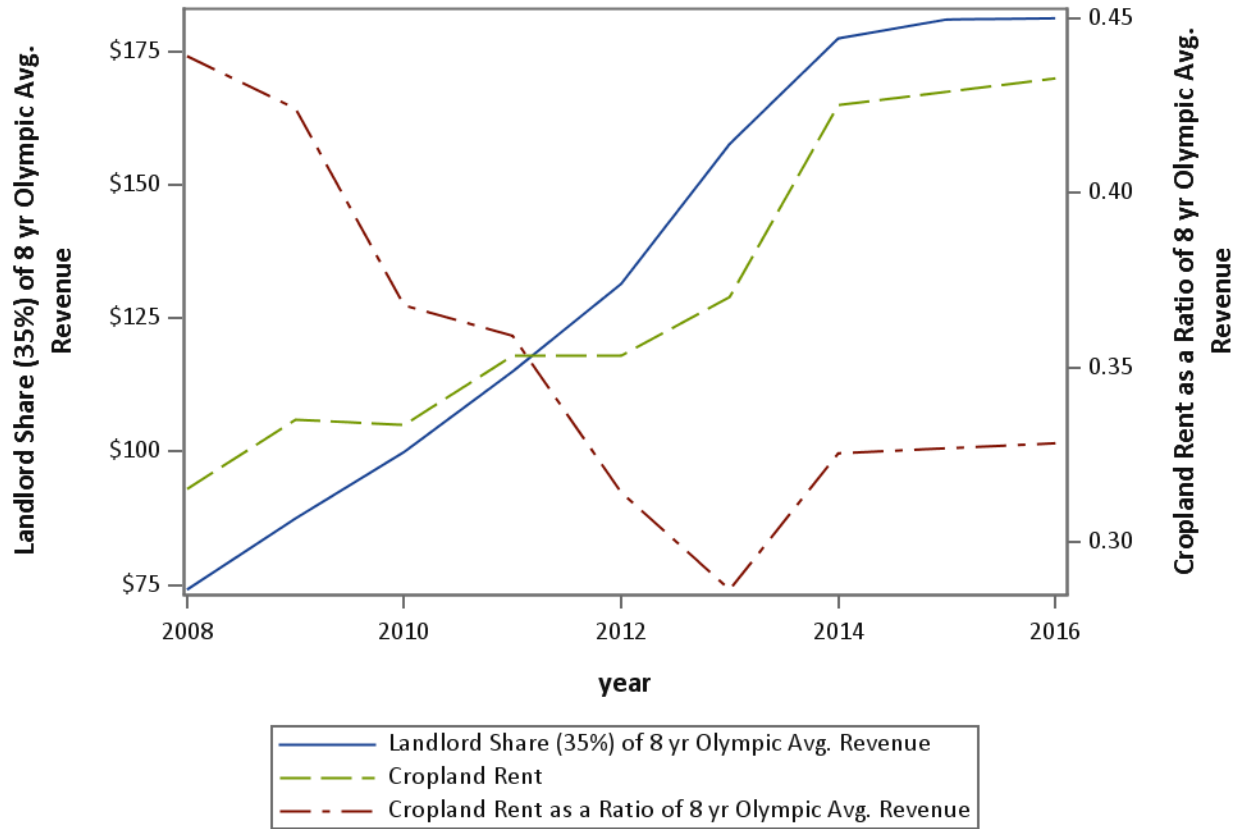


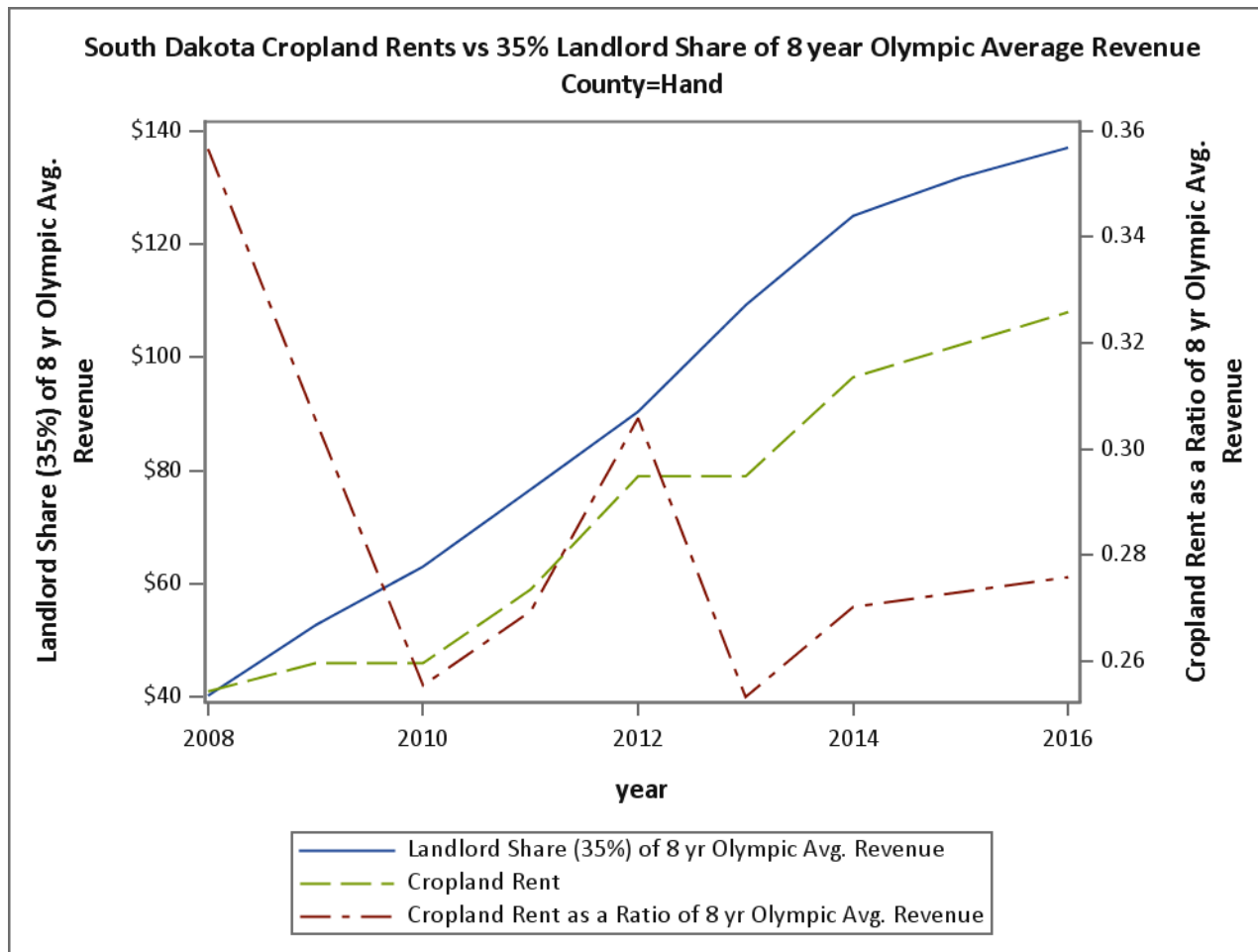


South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
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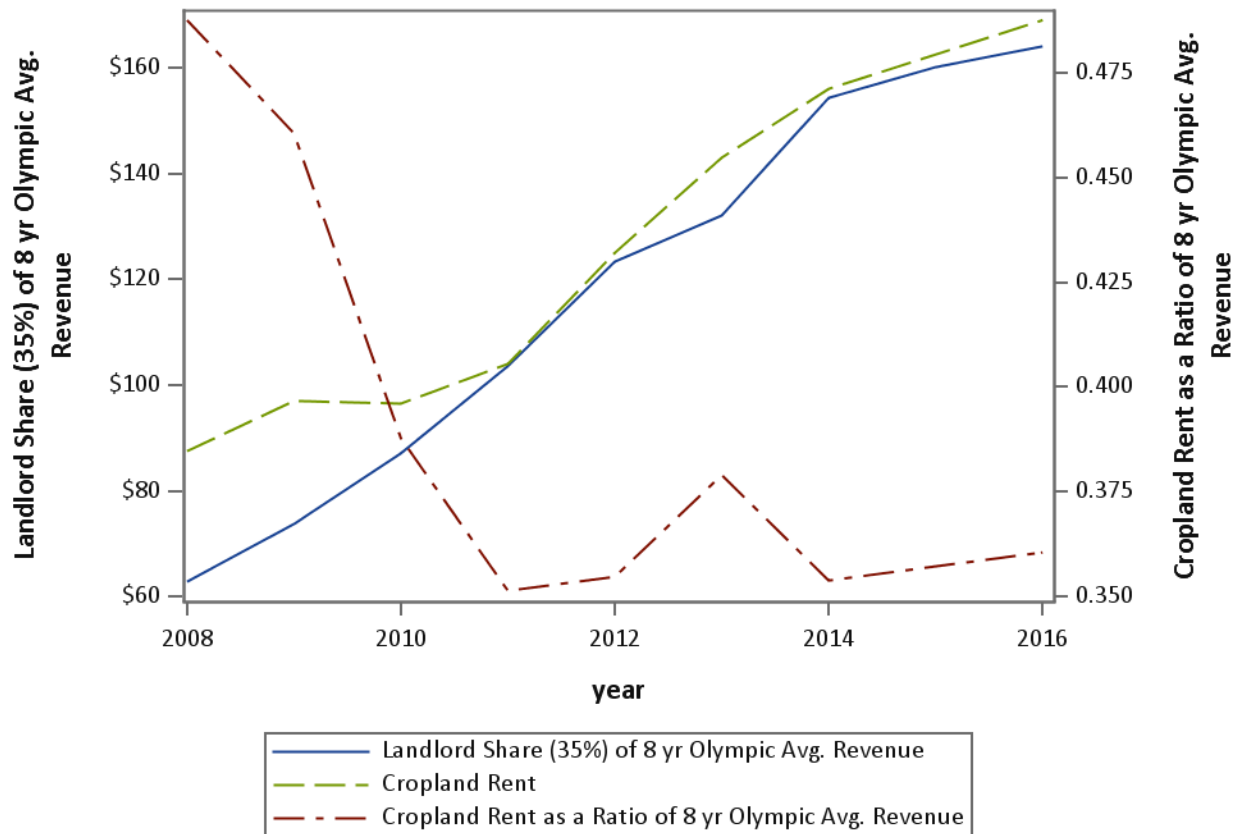


South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
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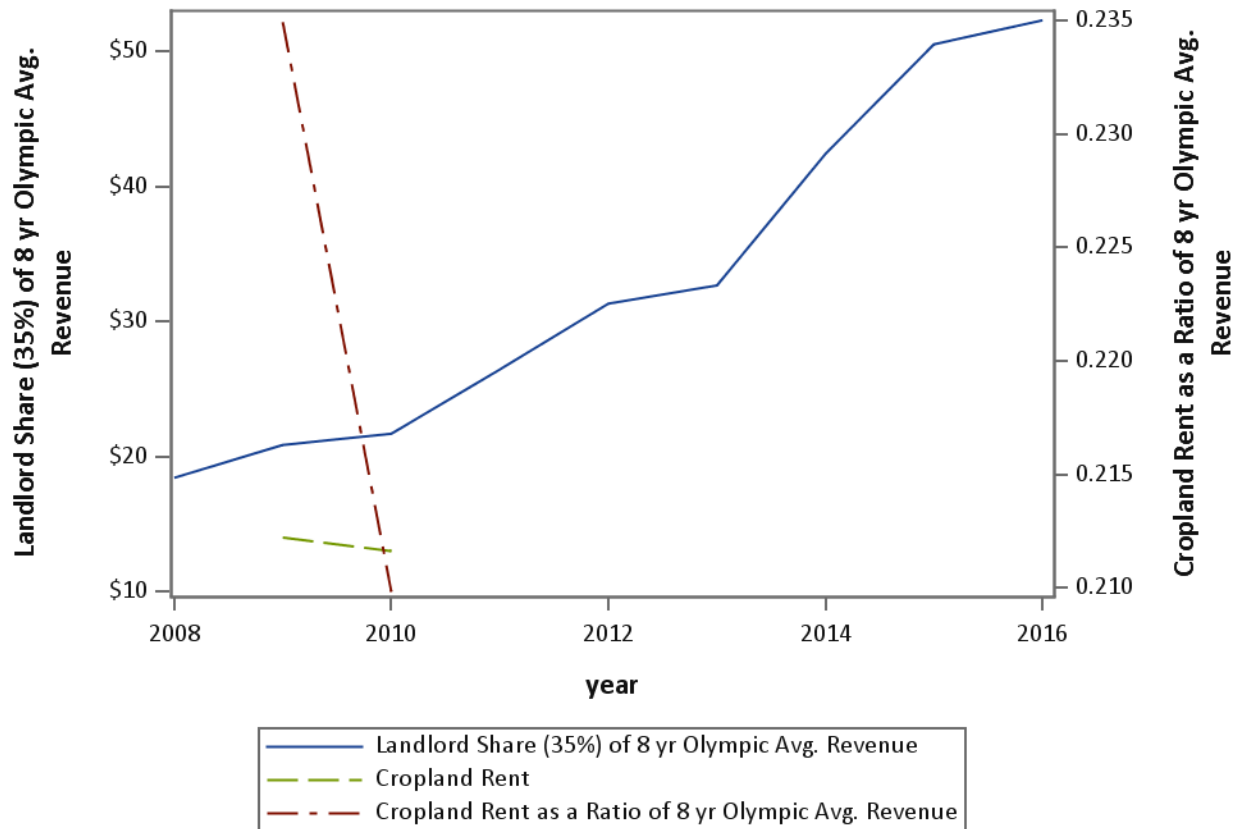


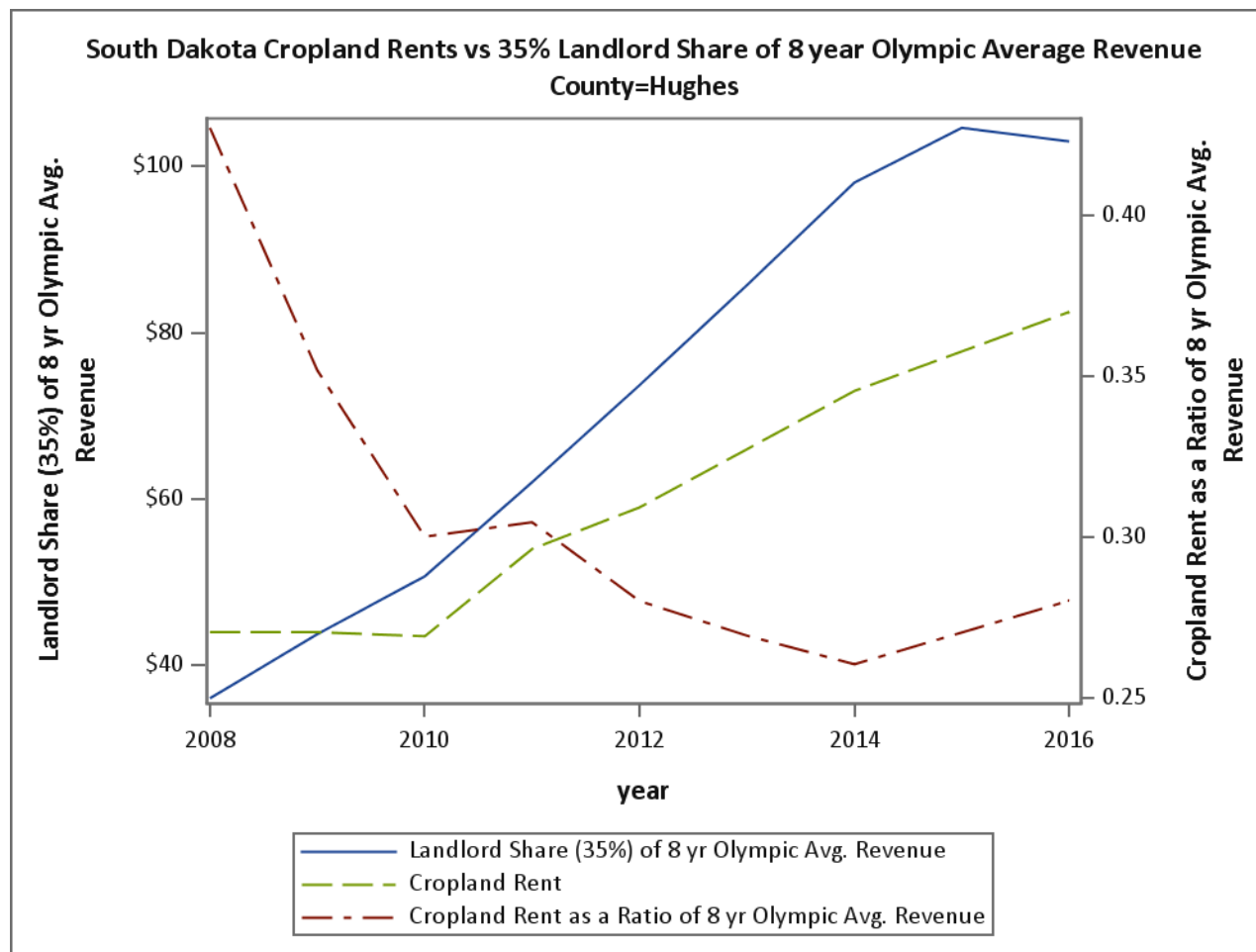


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County=Hanson

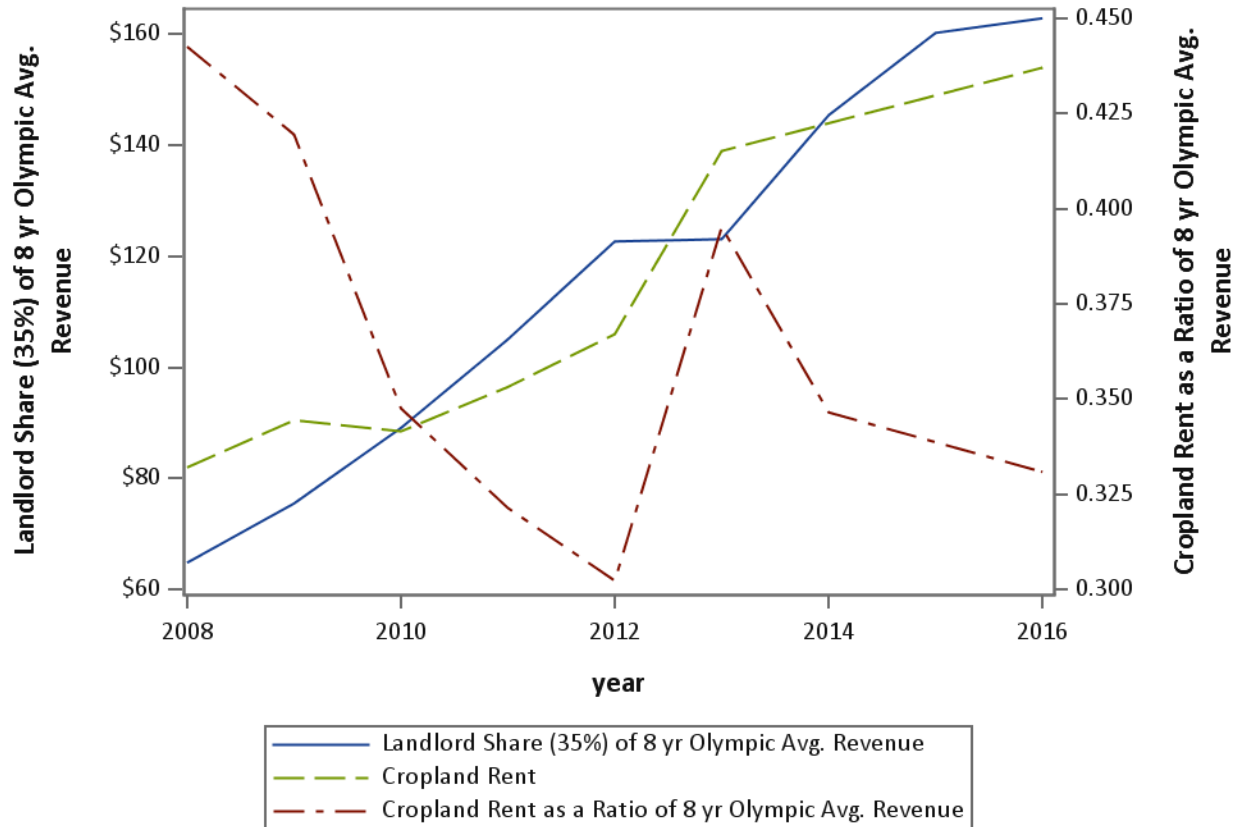


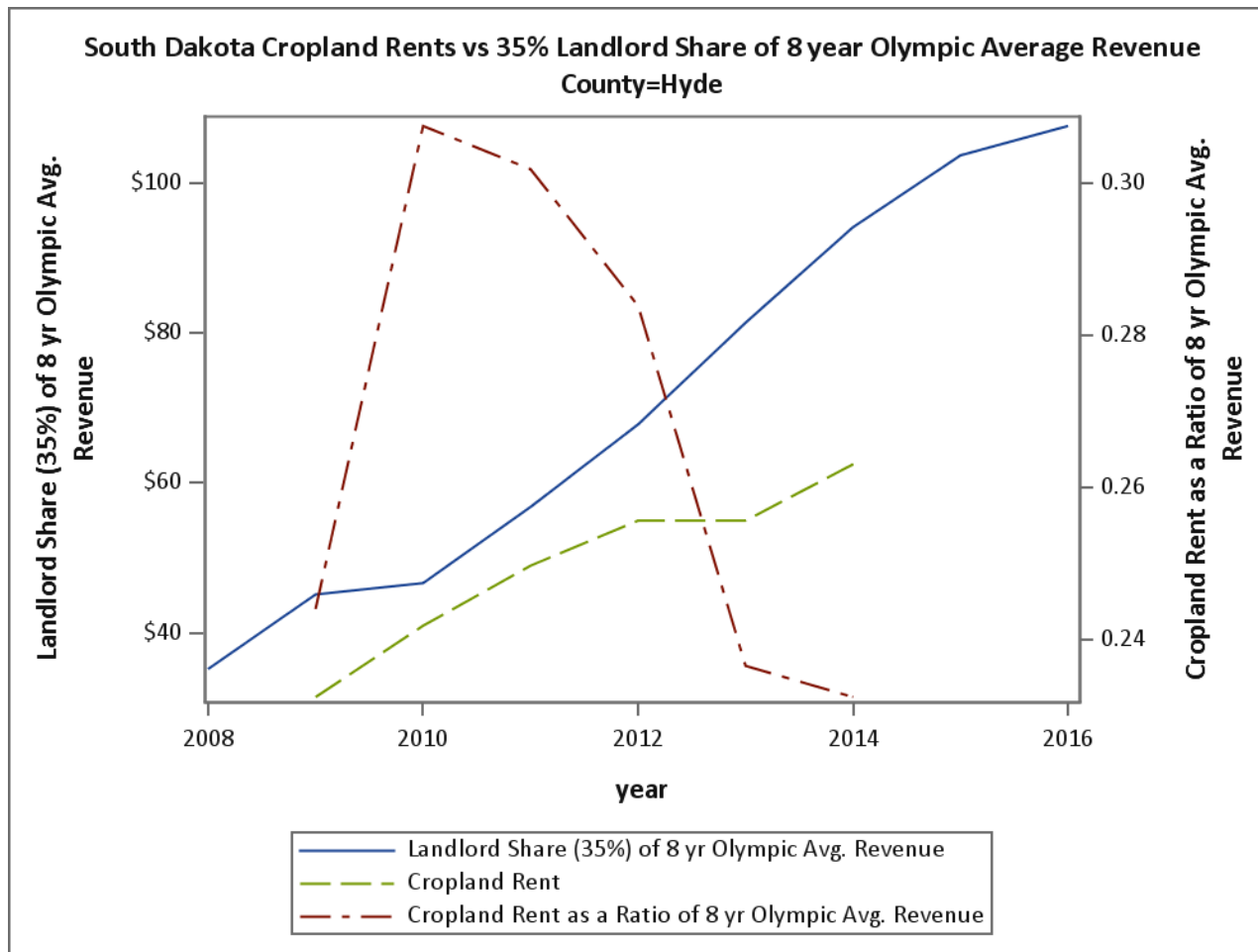
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County=Harding

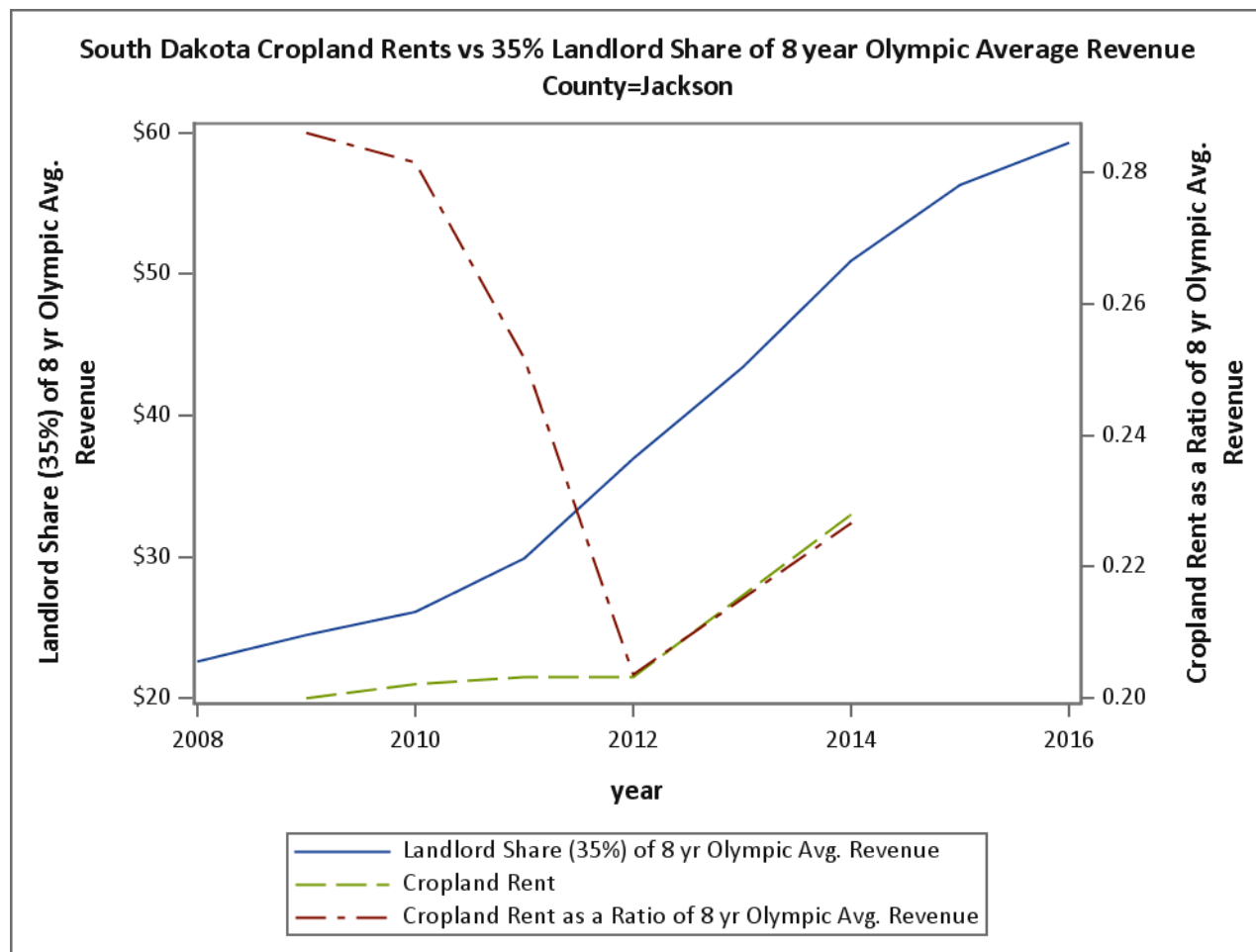


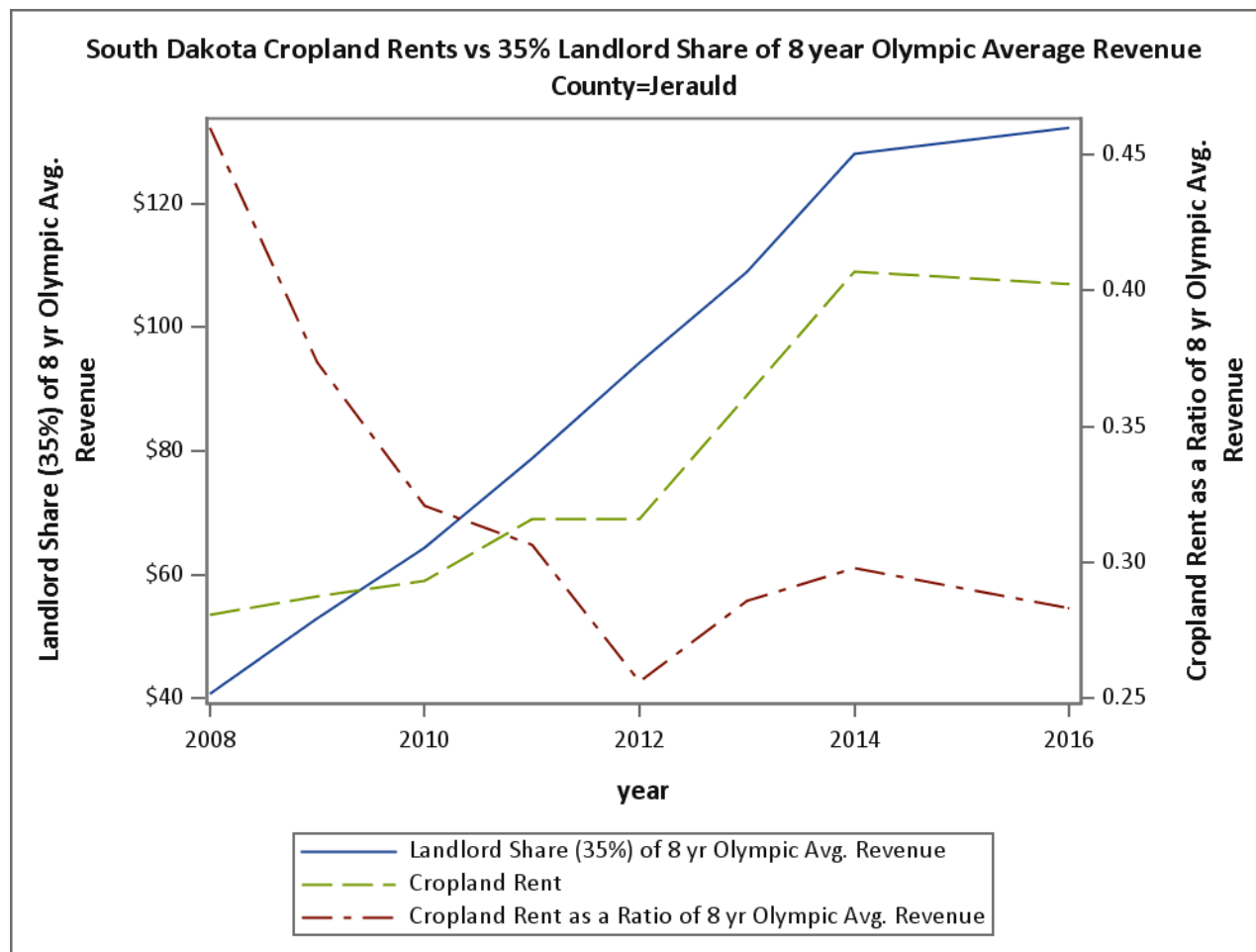


**South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Hutchinson**

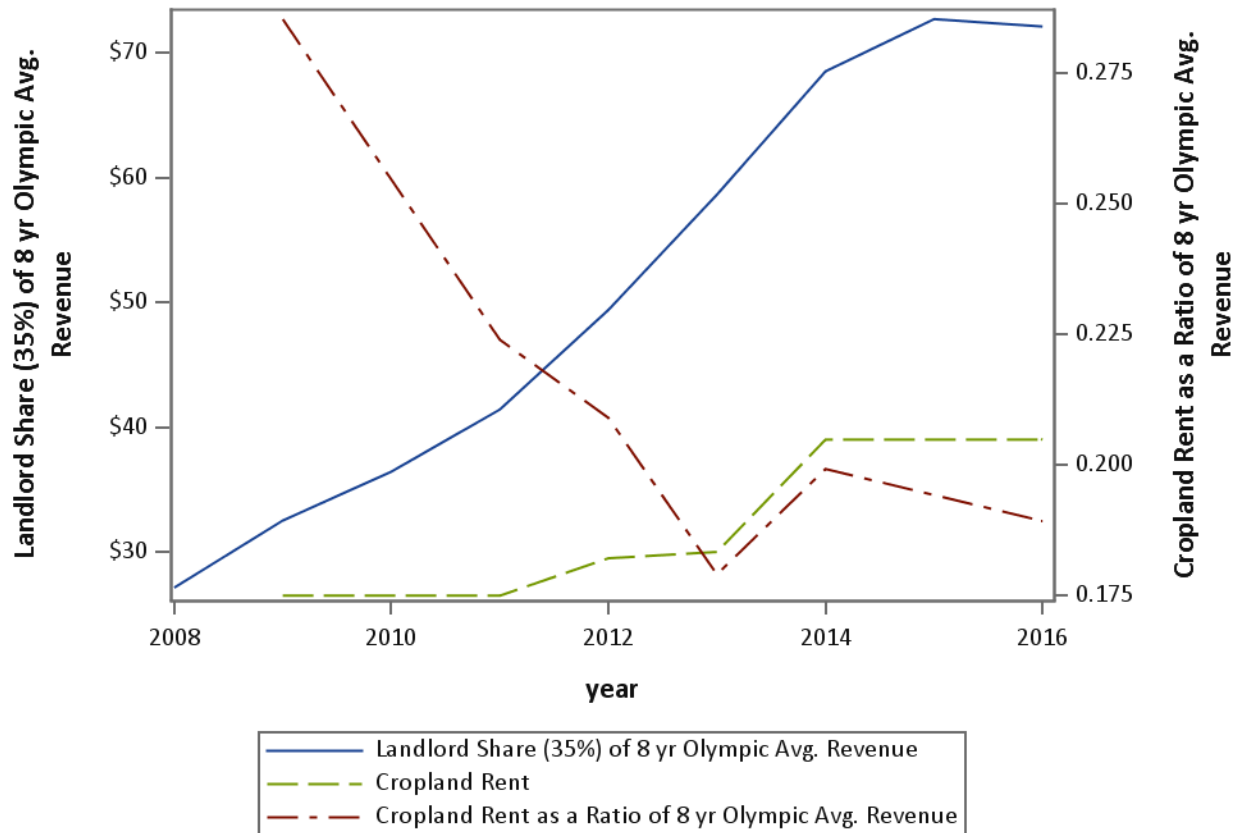




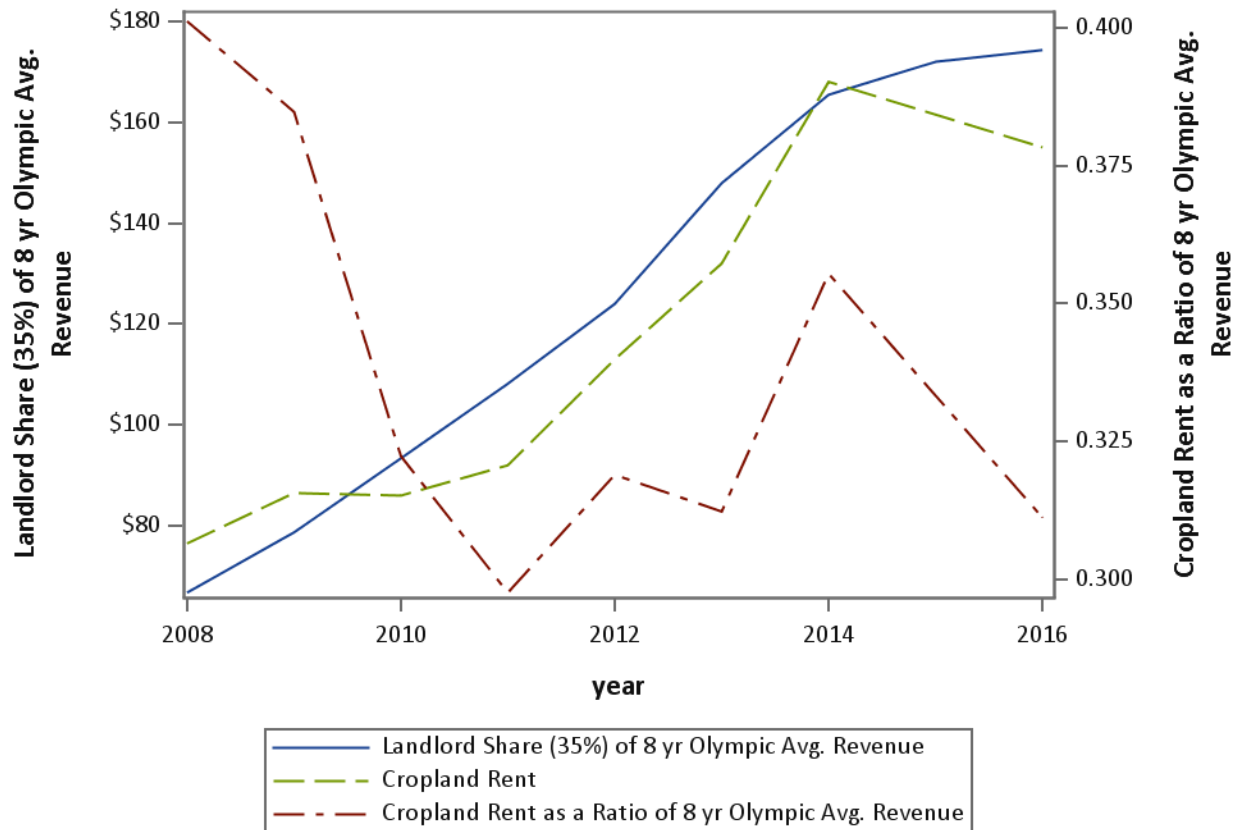


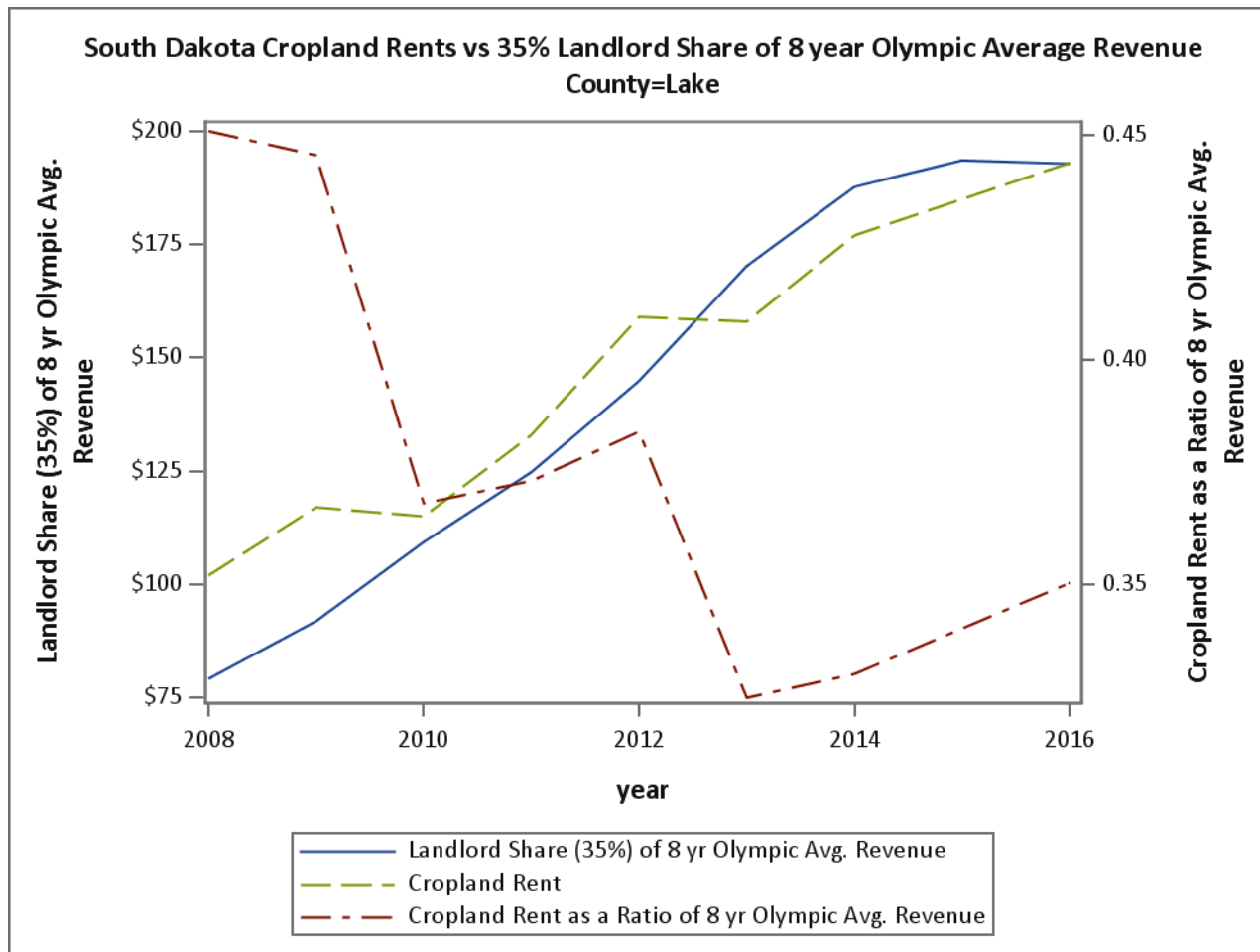


South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Jones

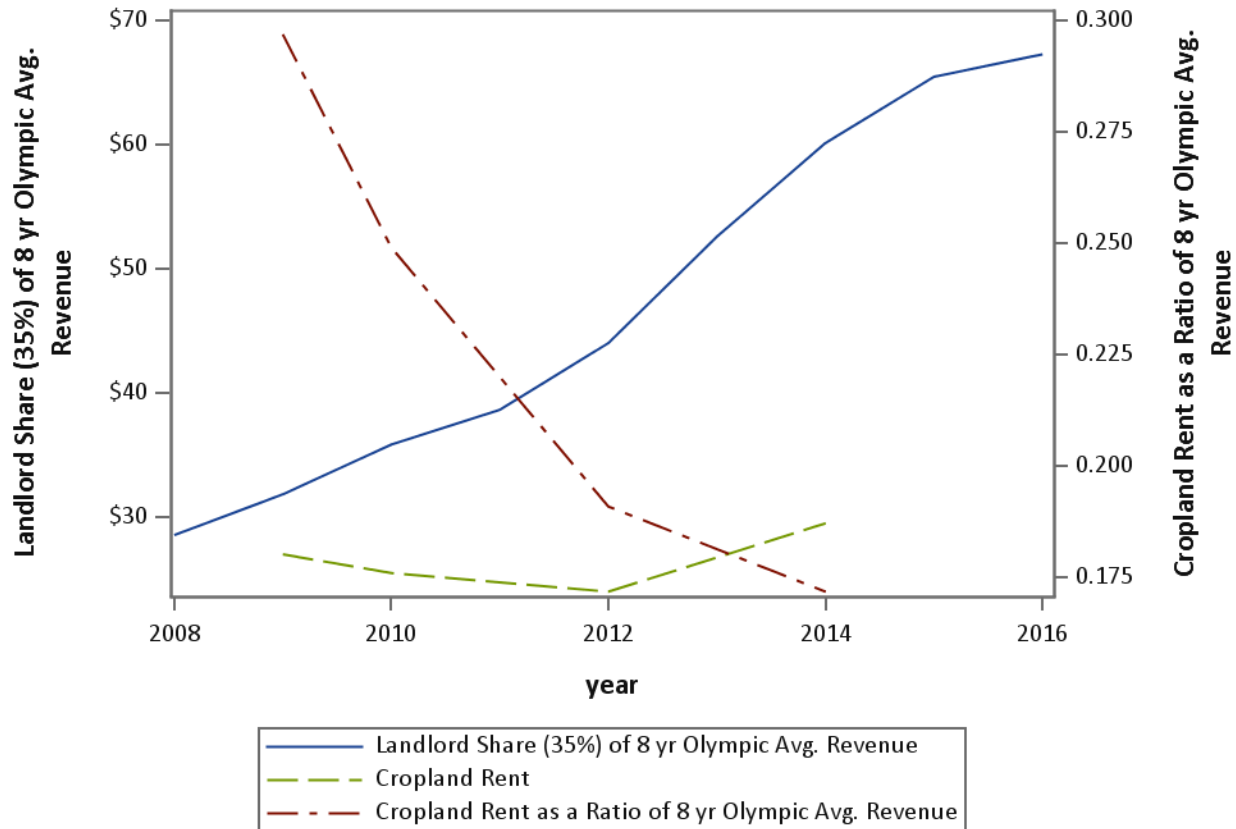


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County=Kingsbury**

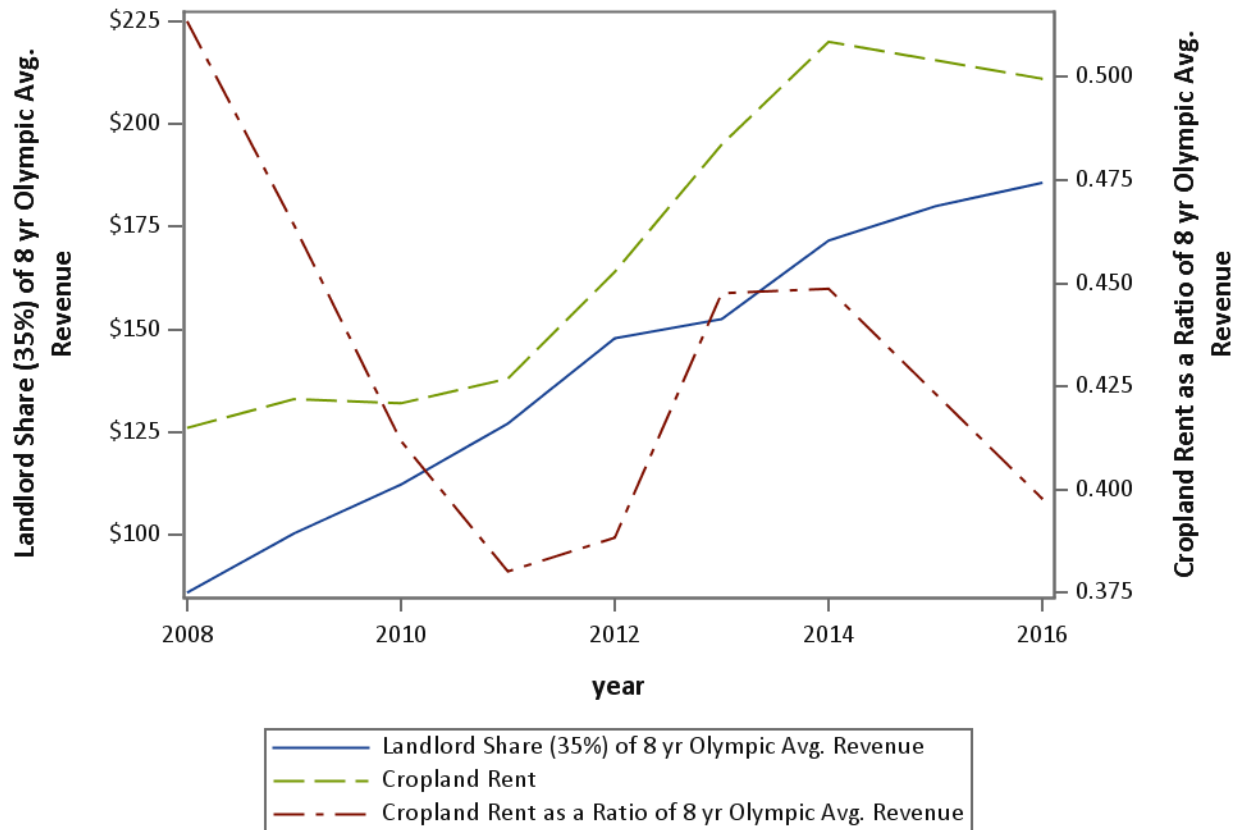




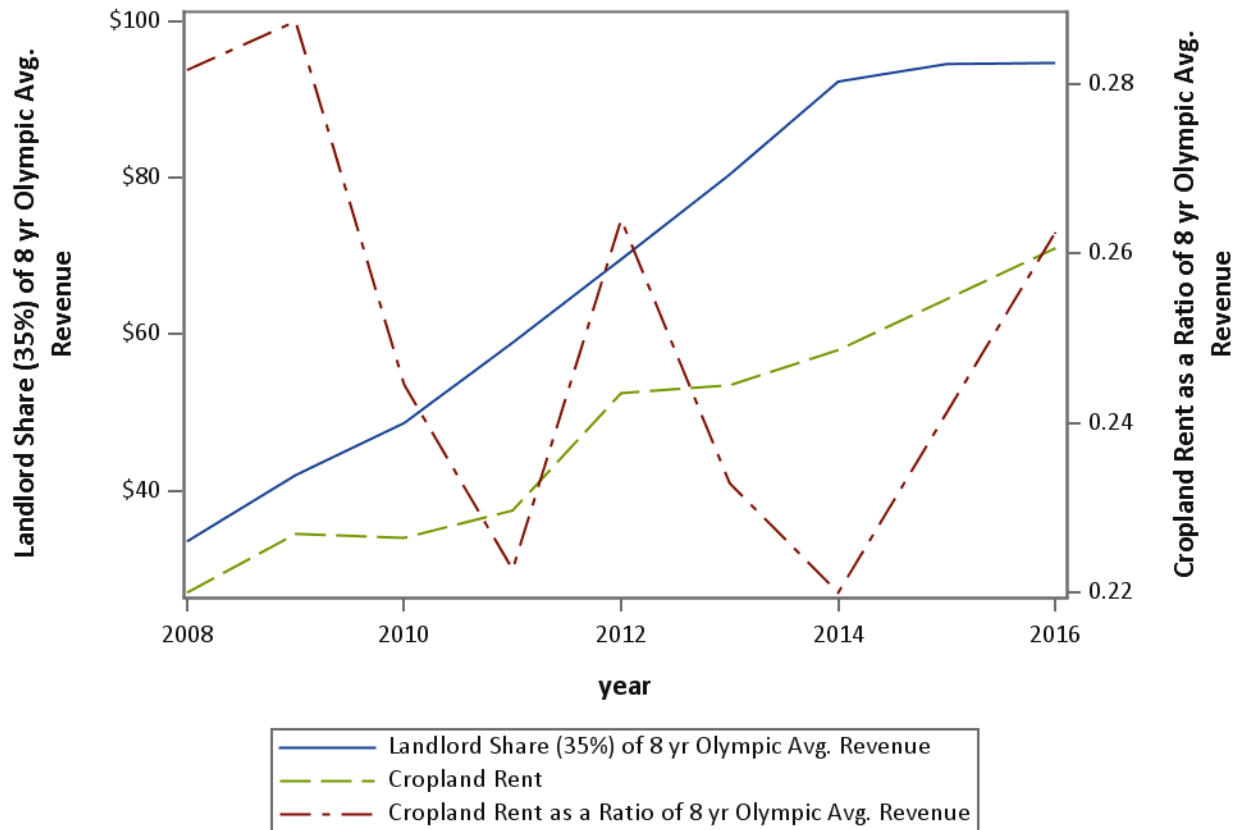
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County=Lawrence



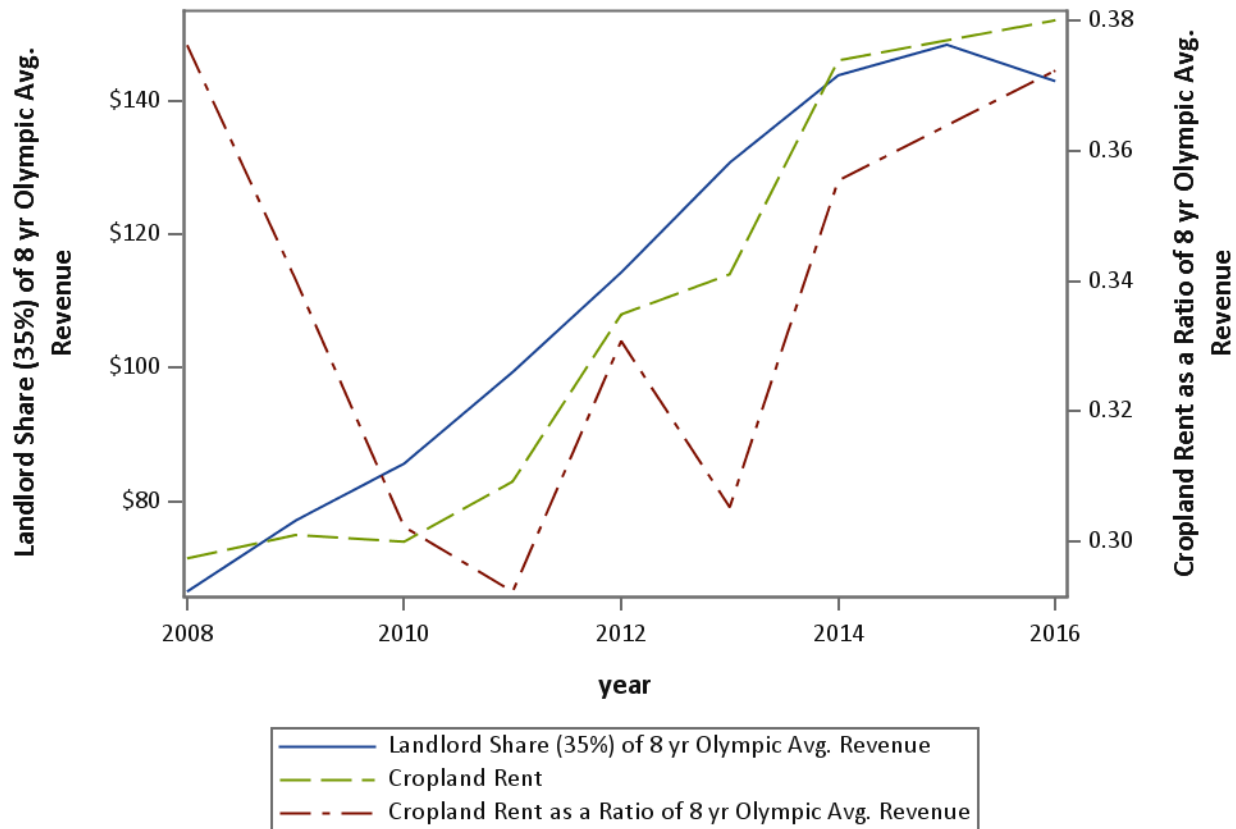
South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Lincoln

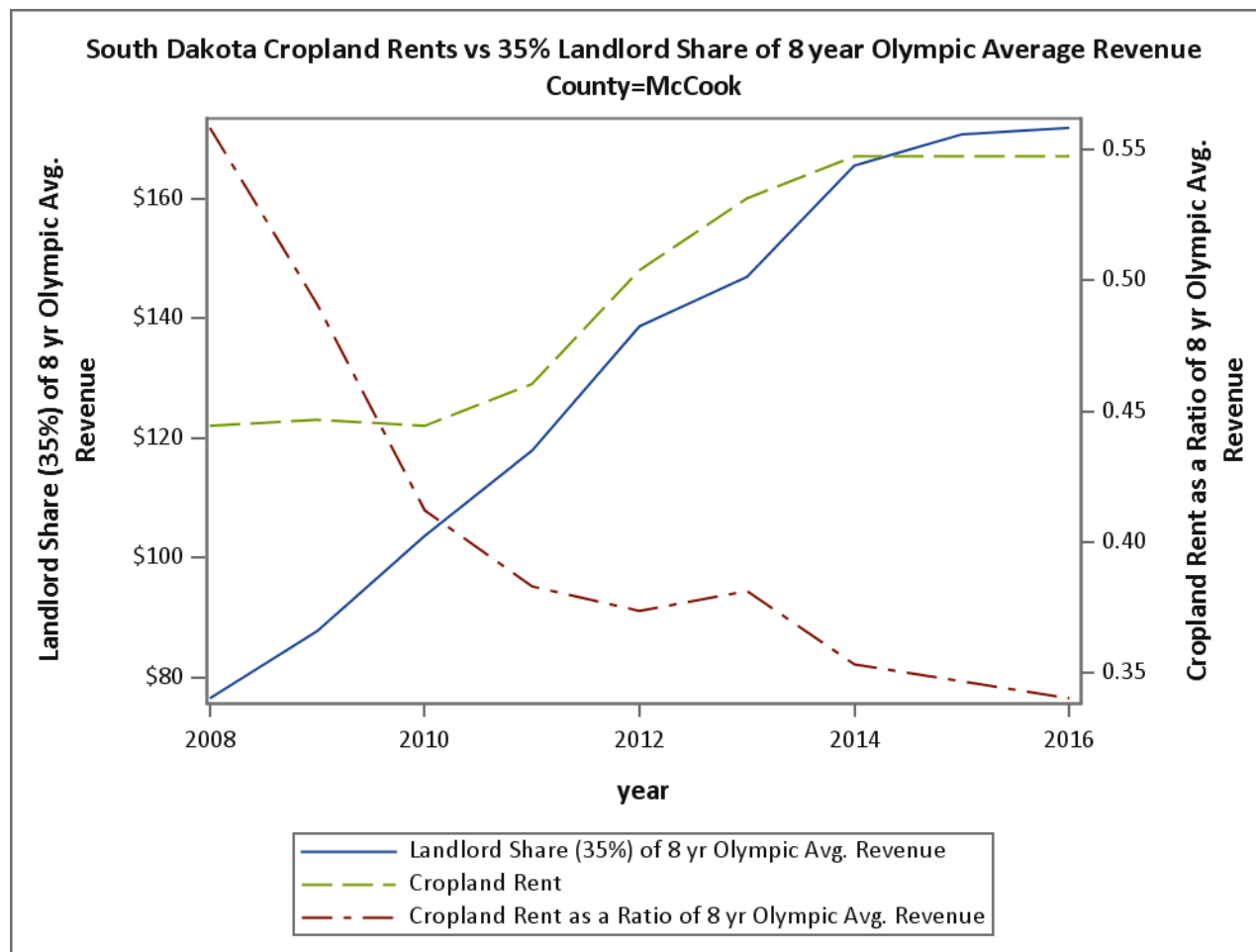


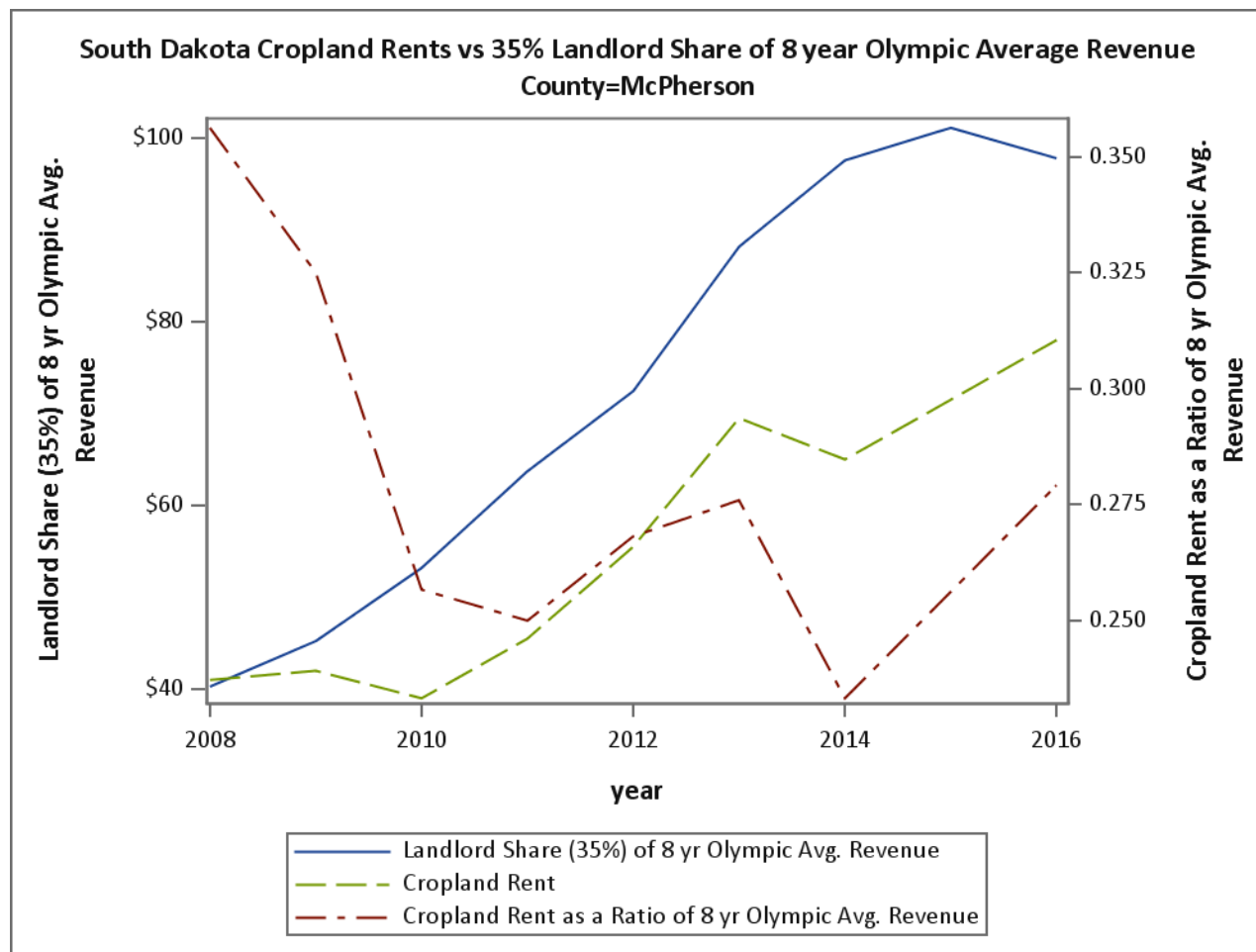
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County=Lyman

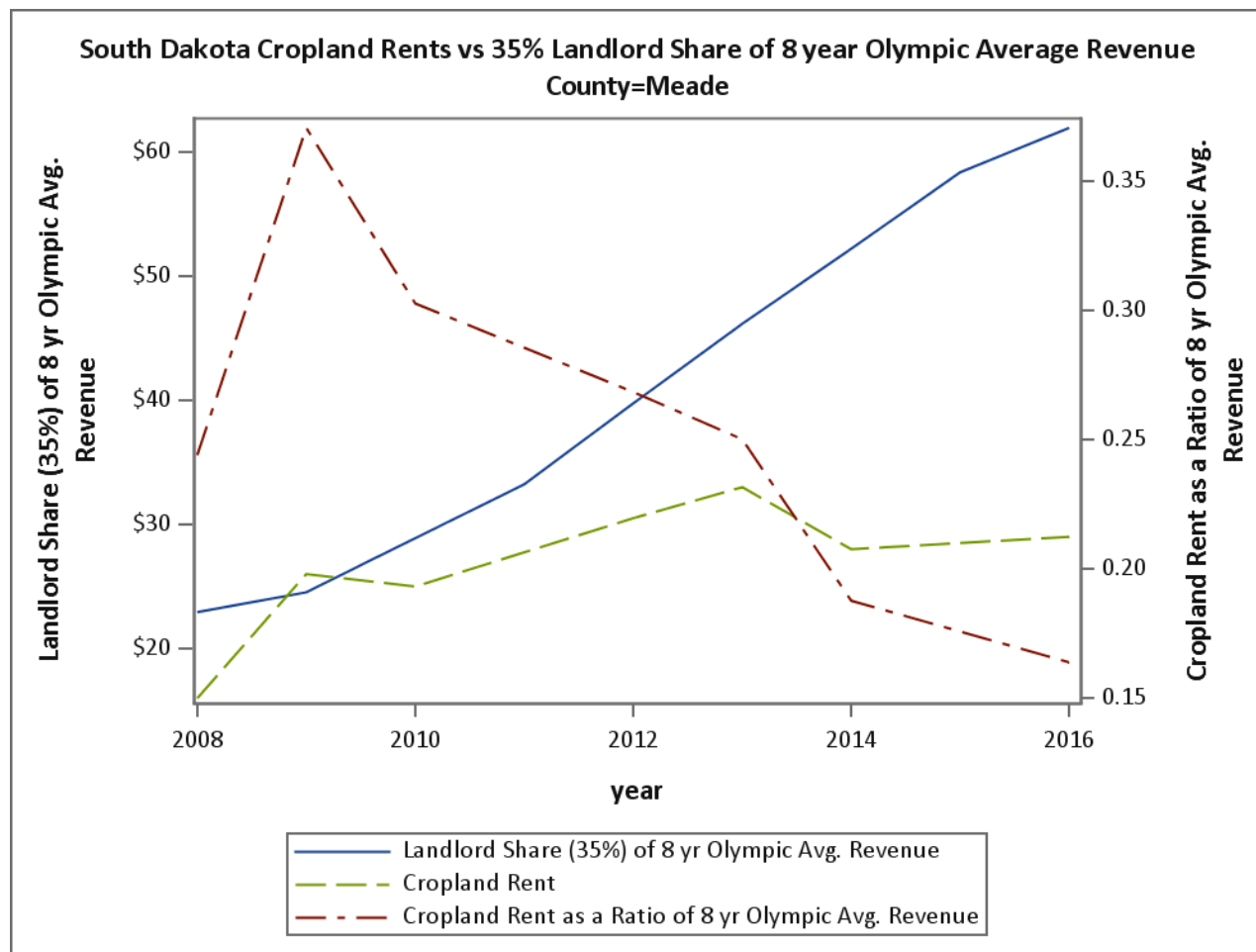


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County=Marshall

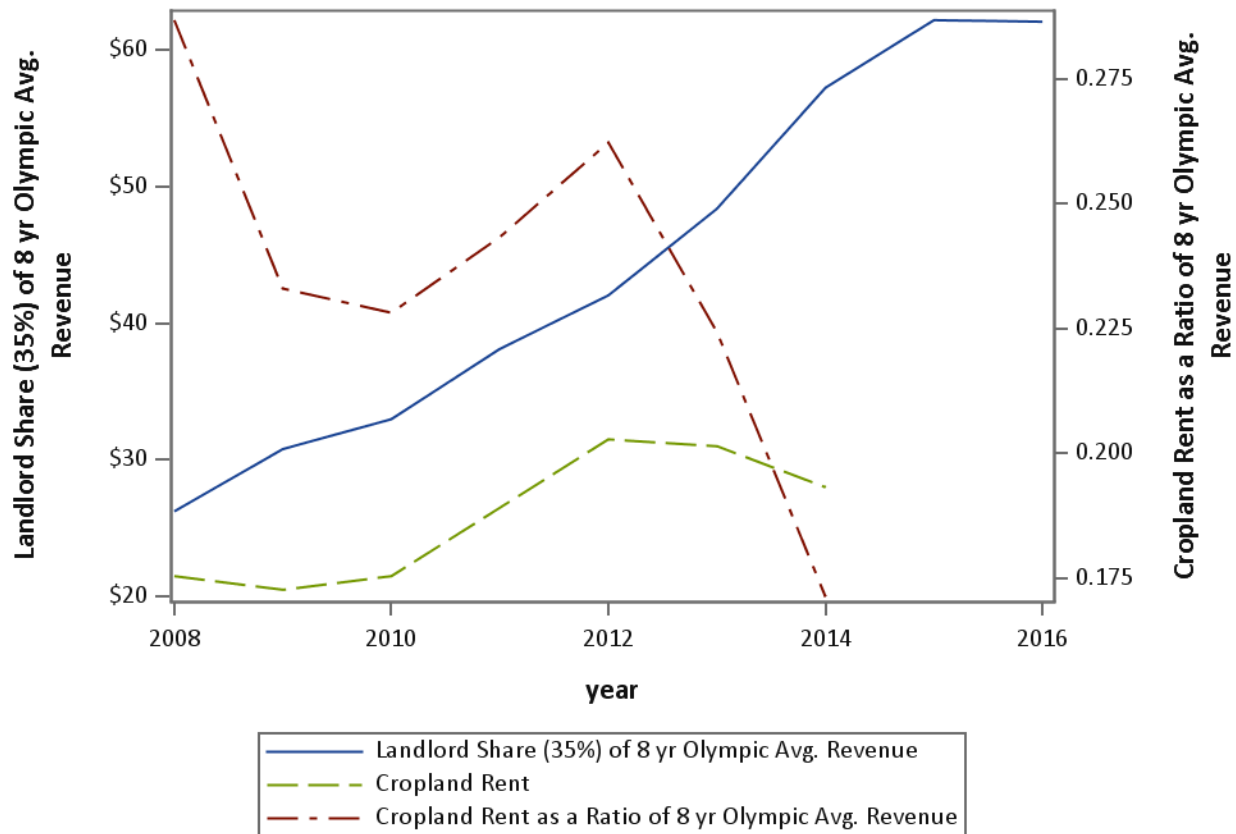


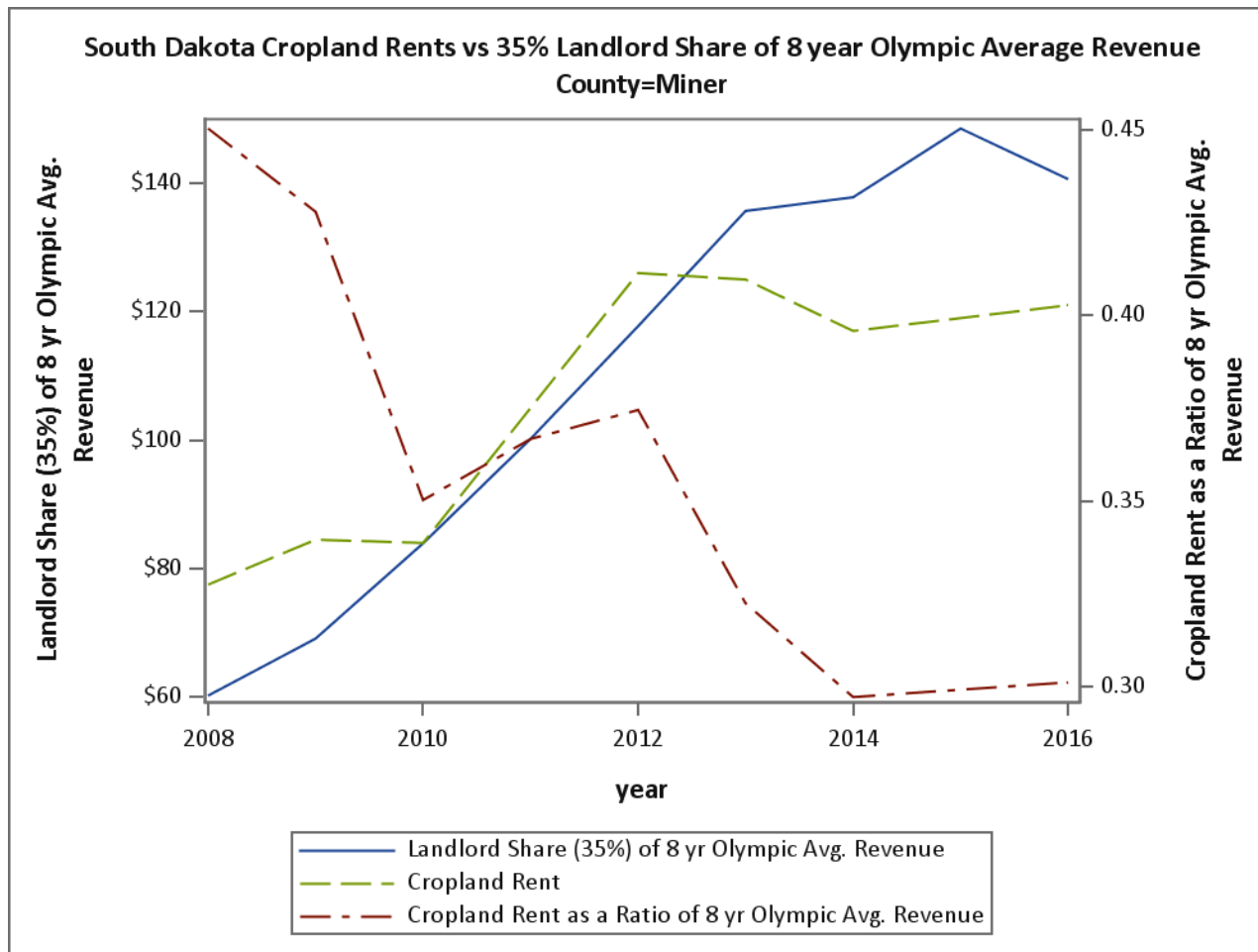


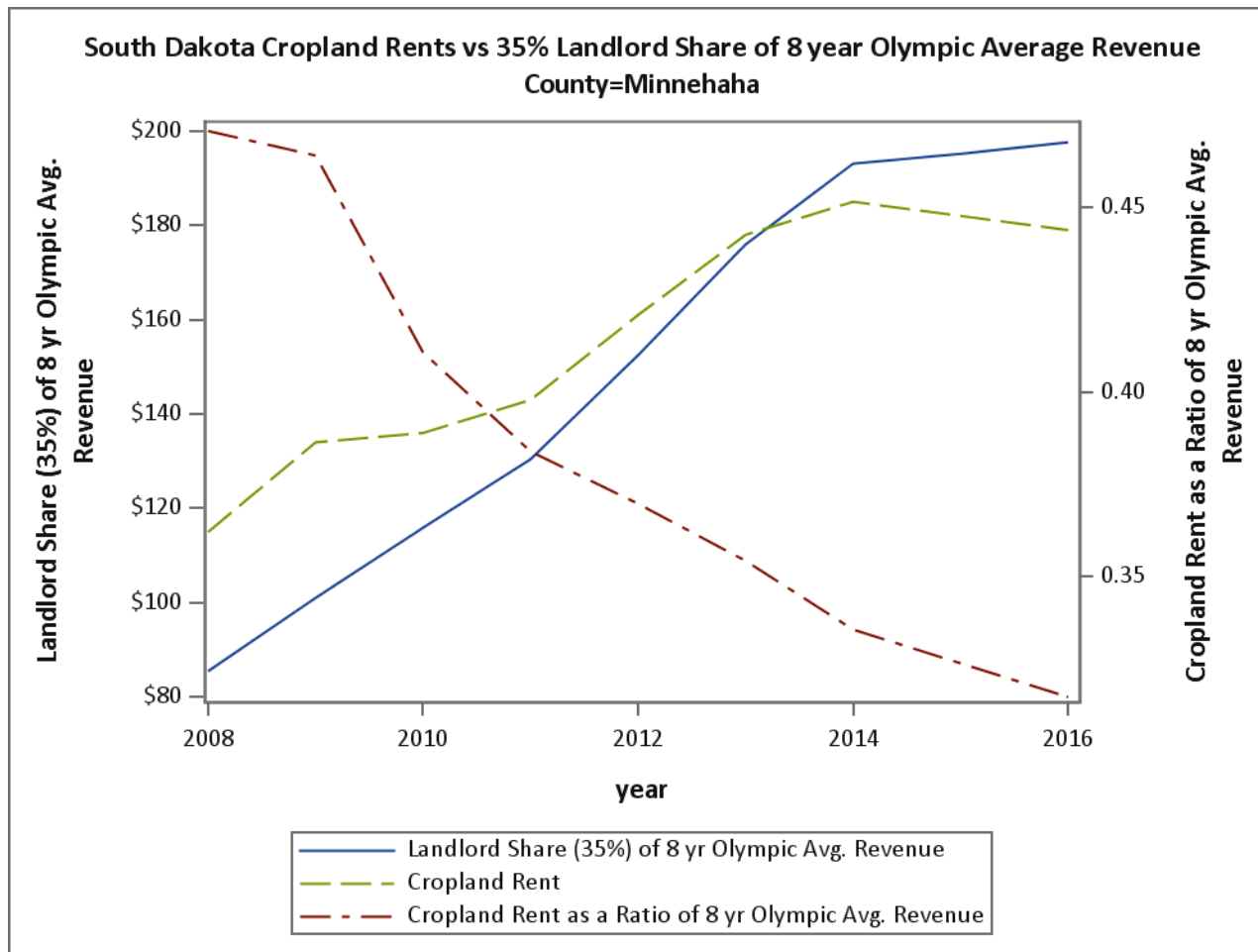




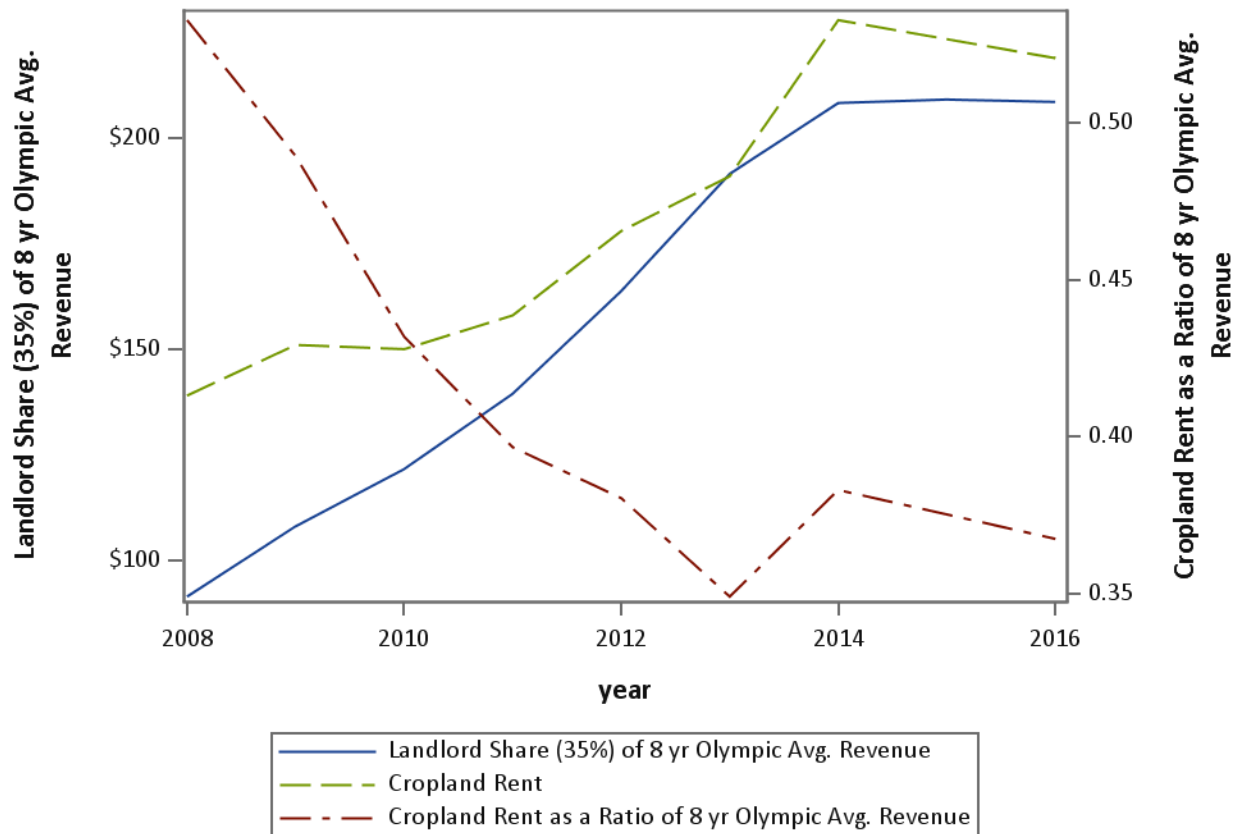
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County=Mellette

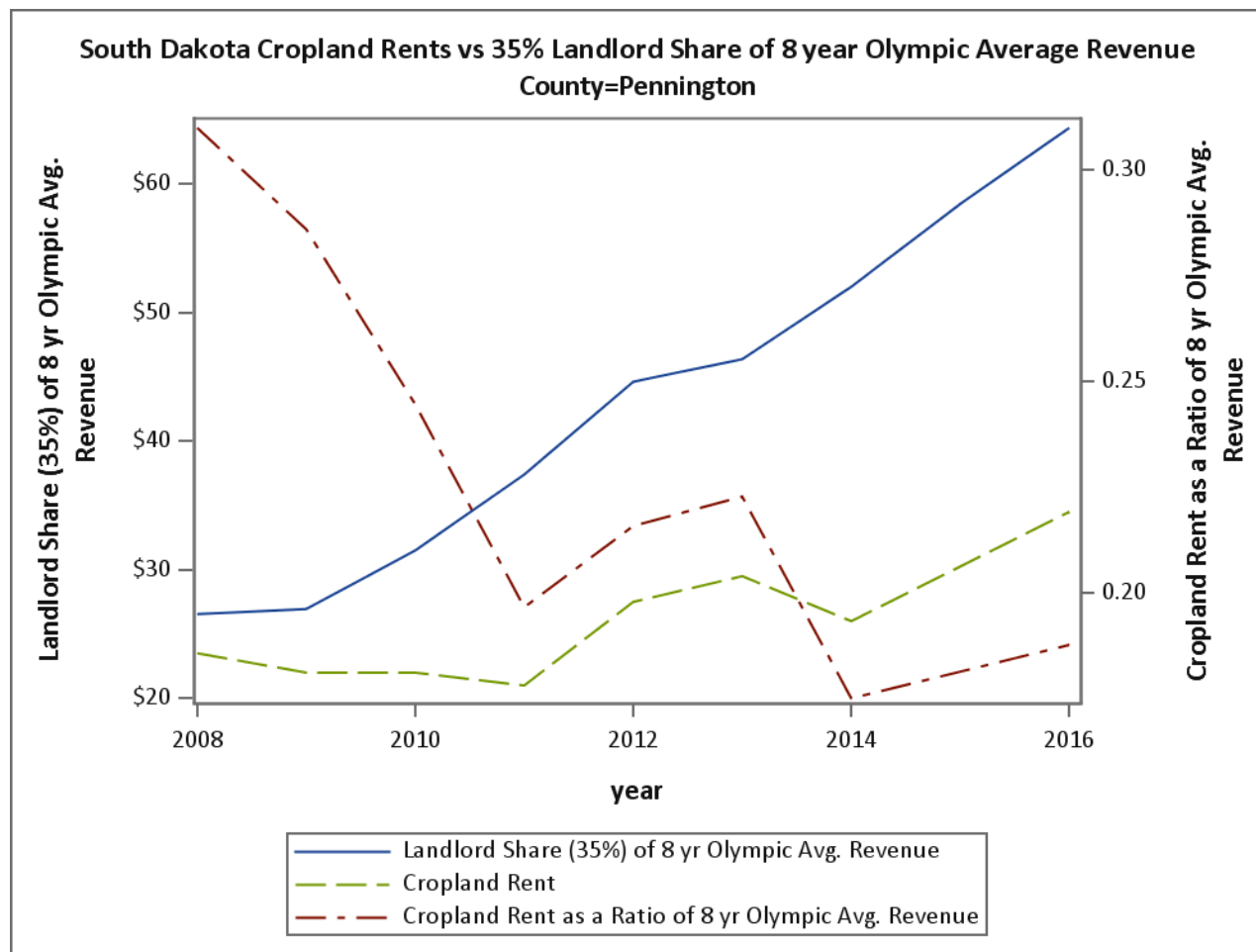


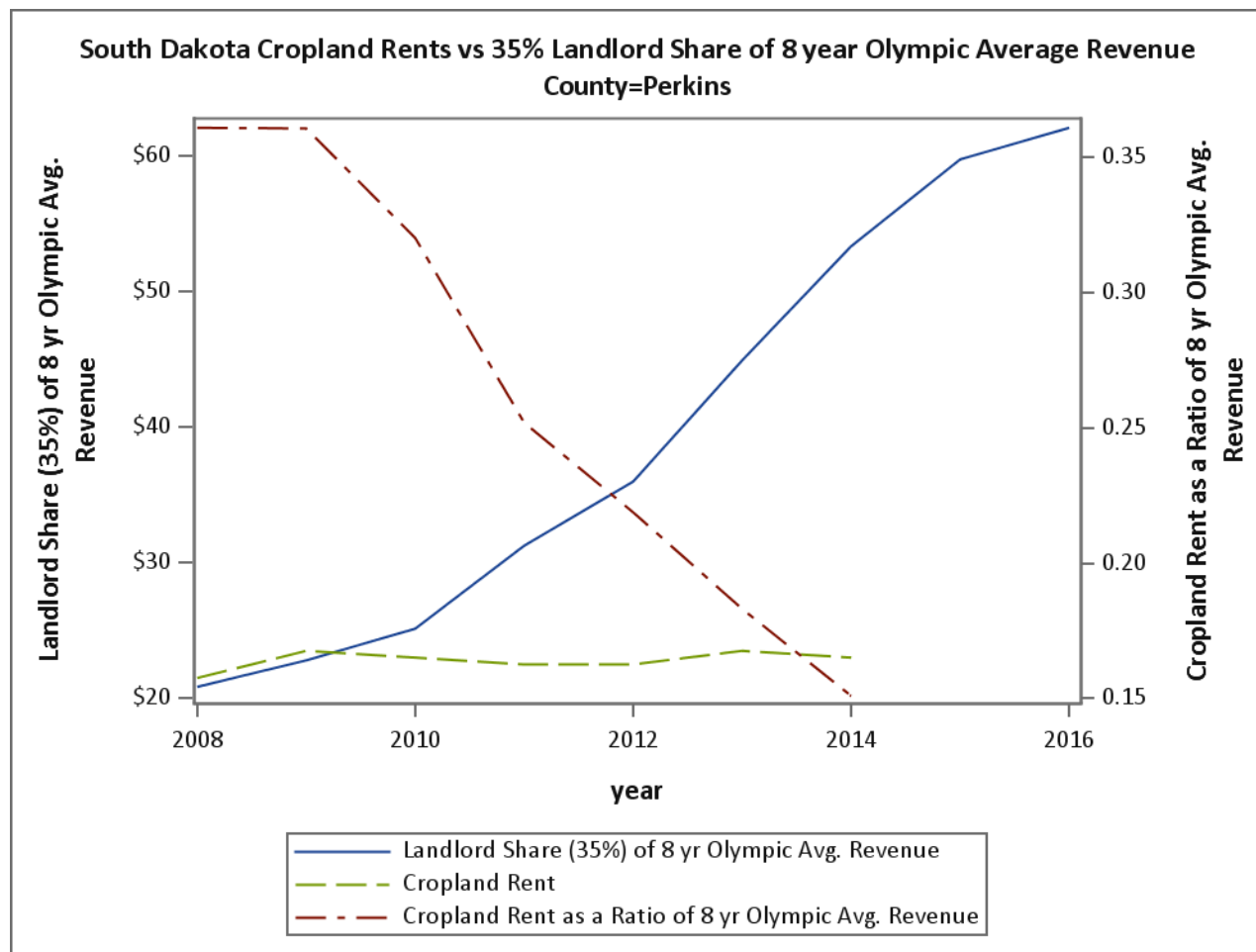




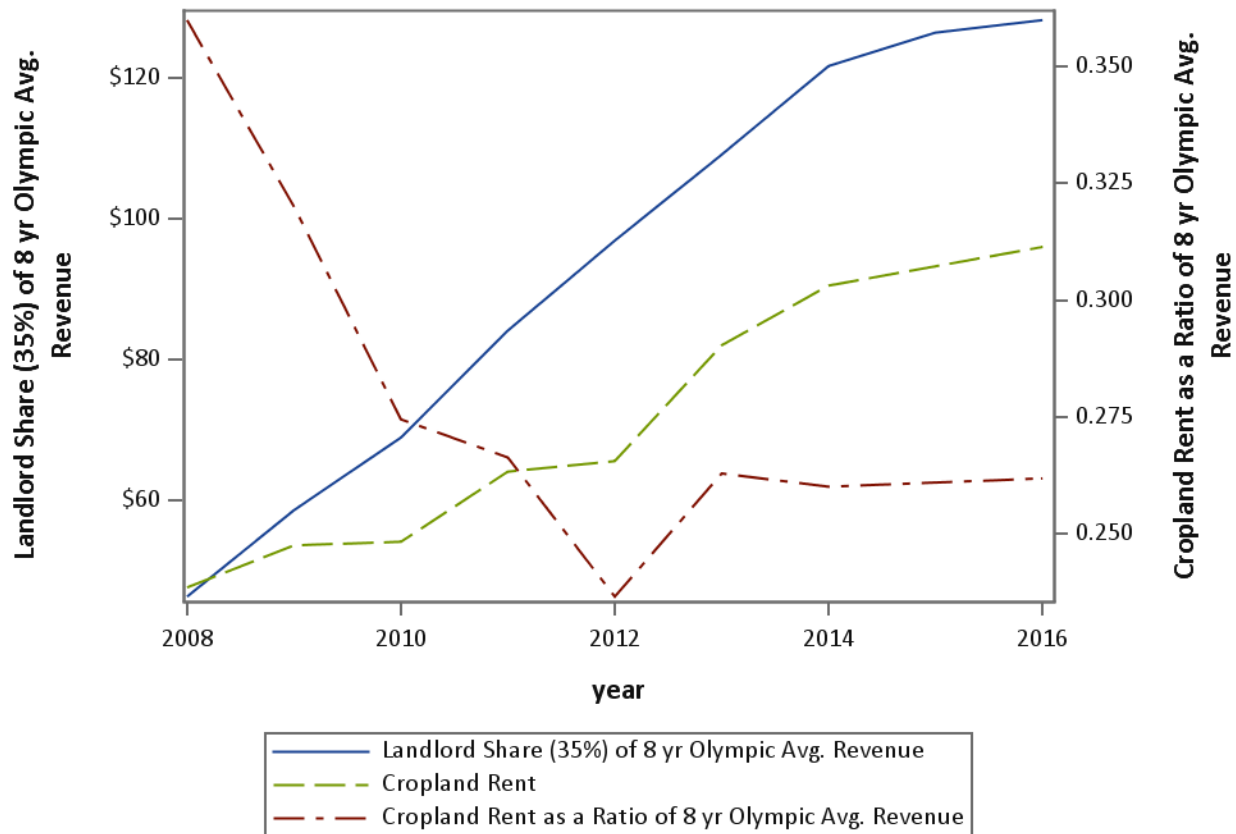
South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Moody

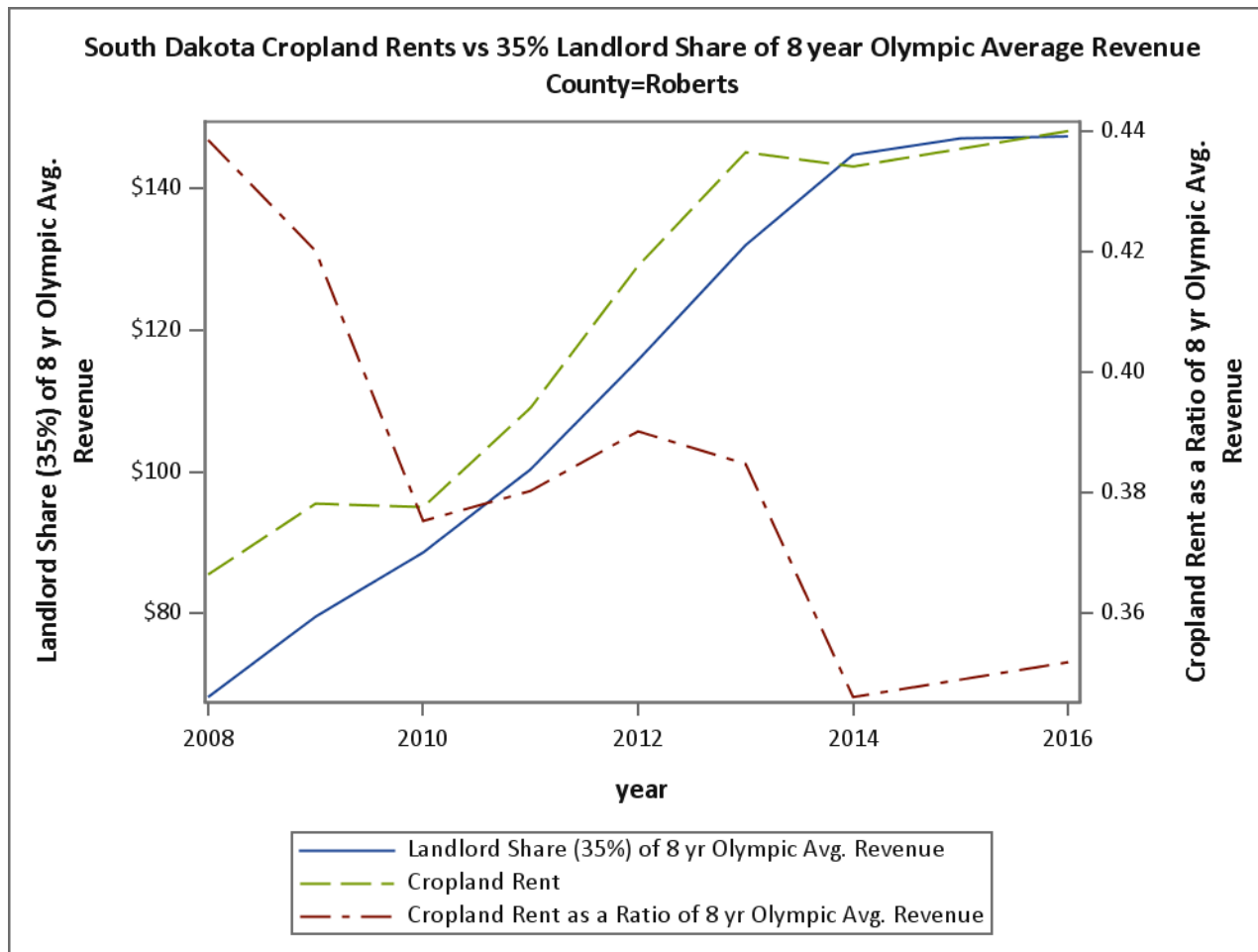


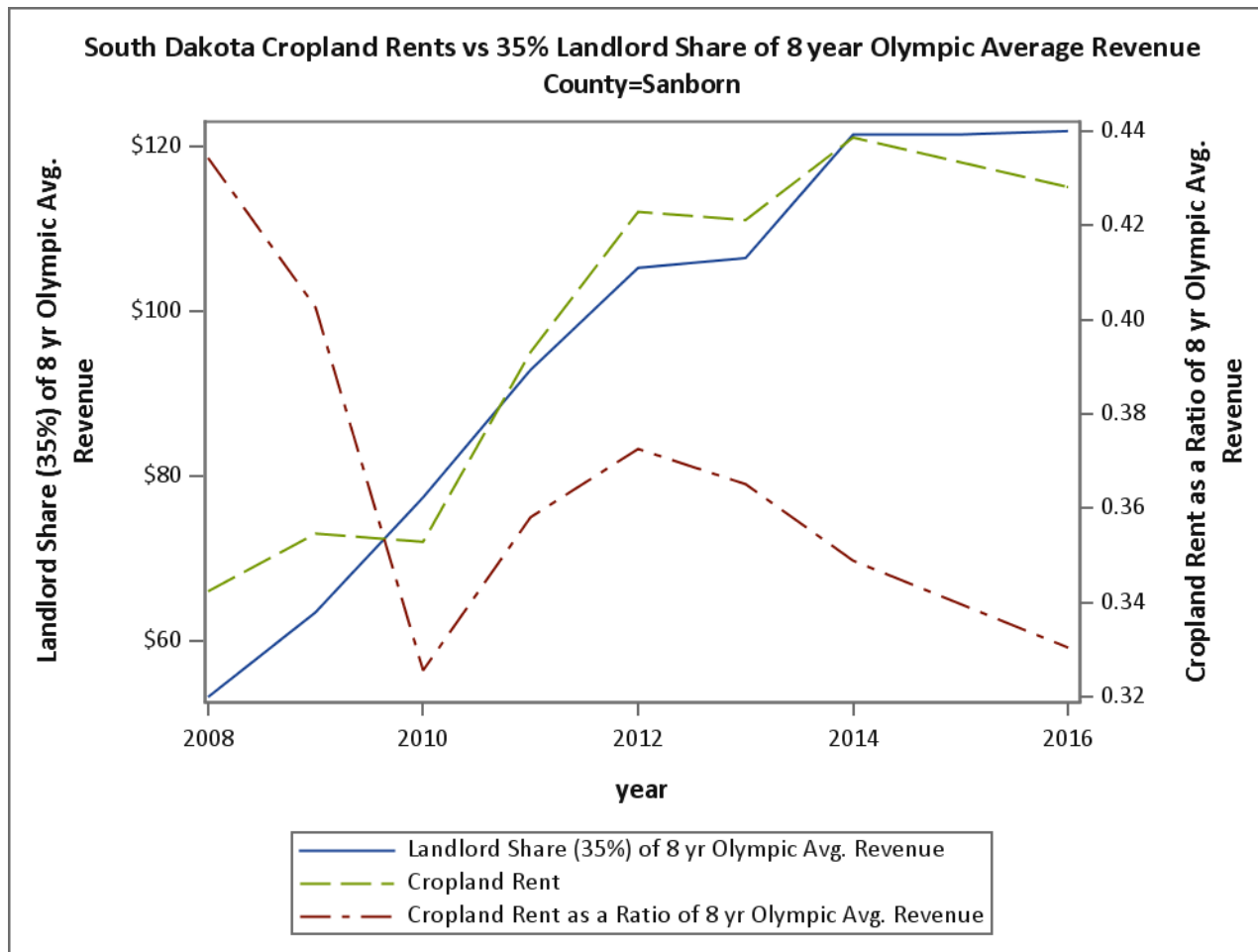




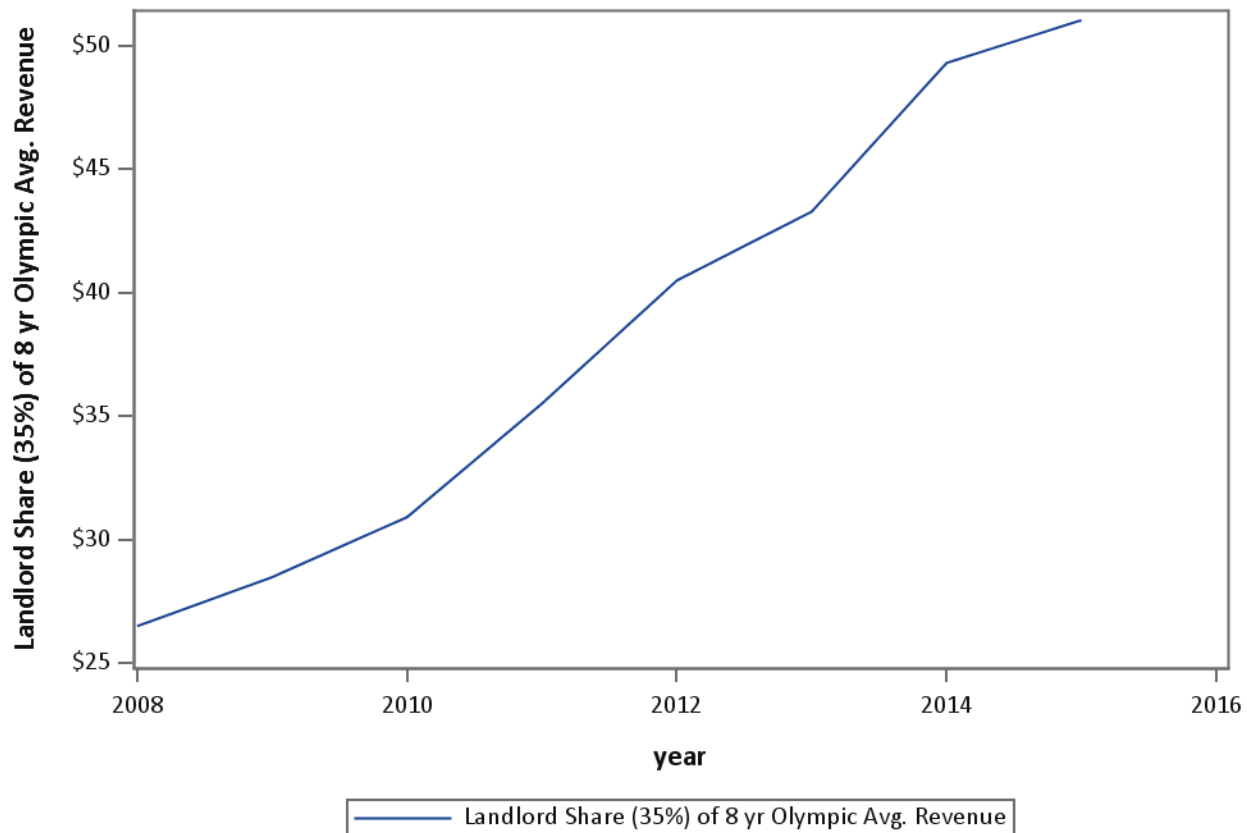
South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Potter

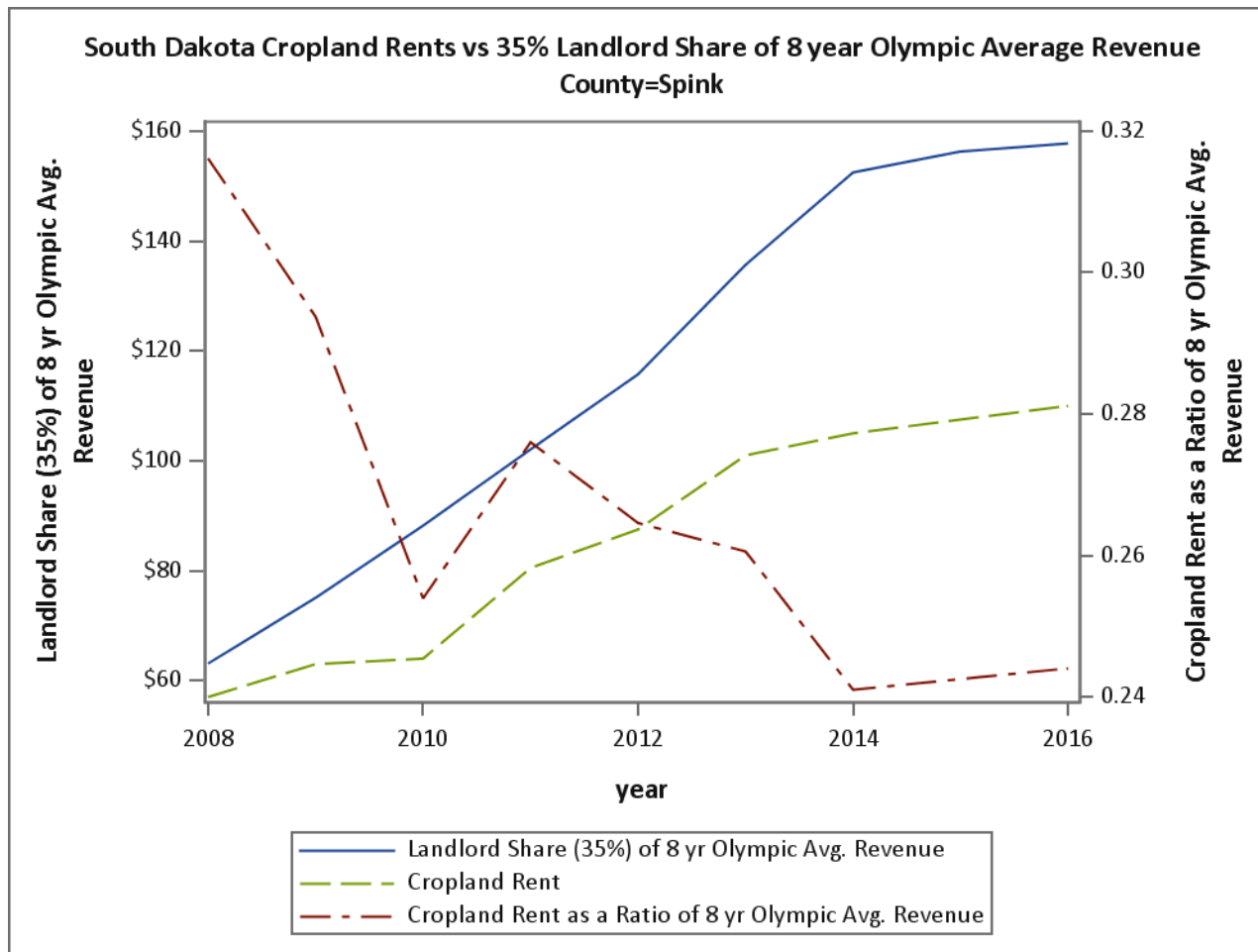




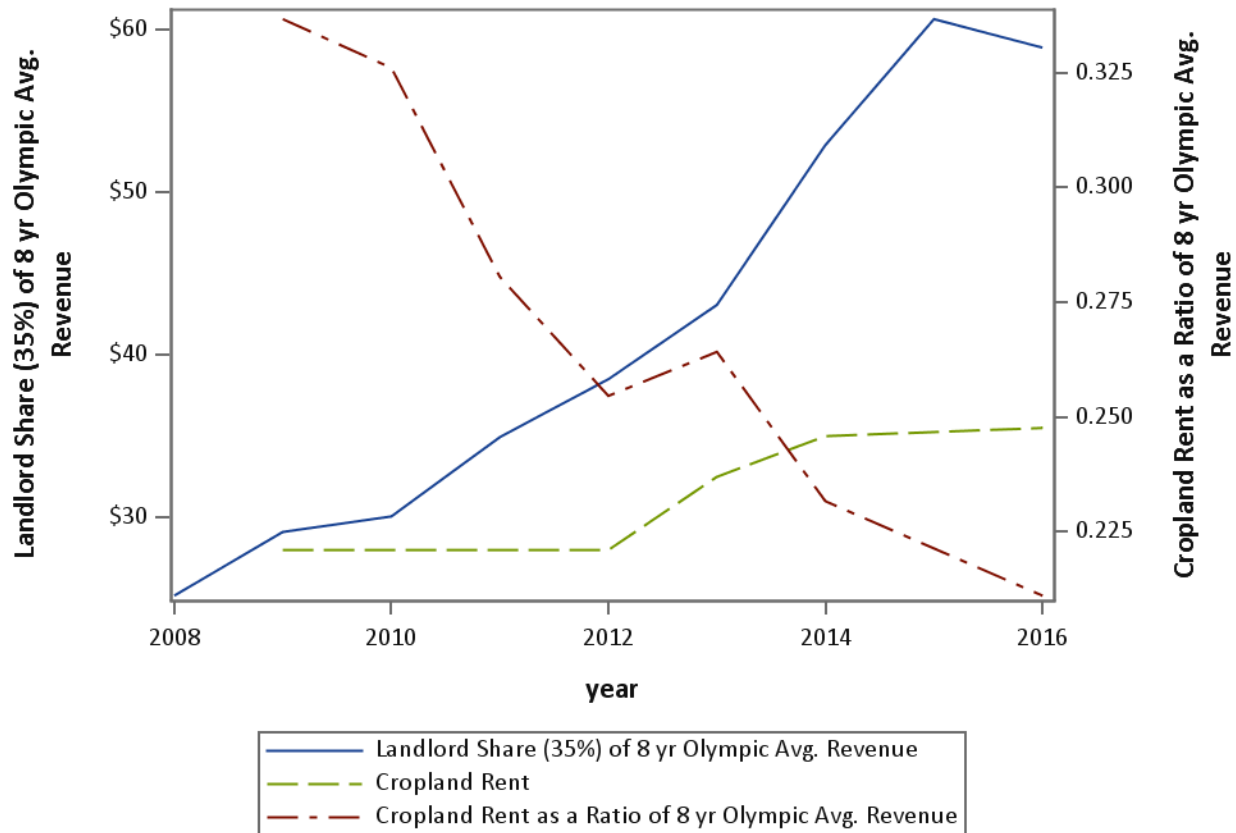


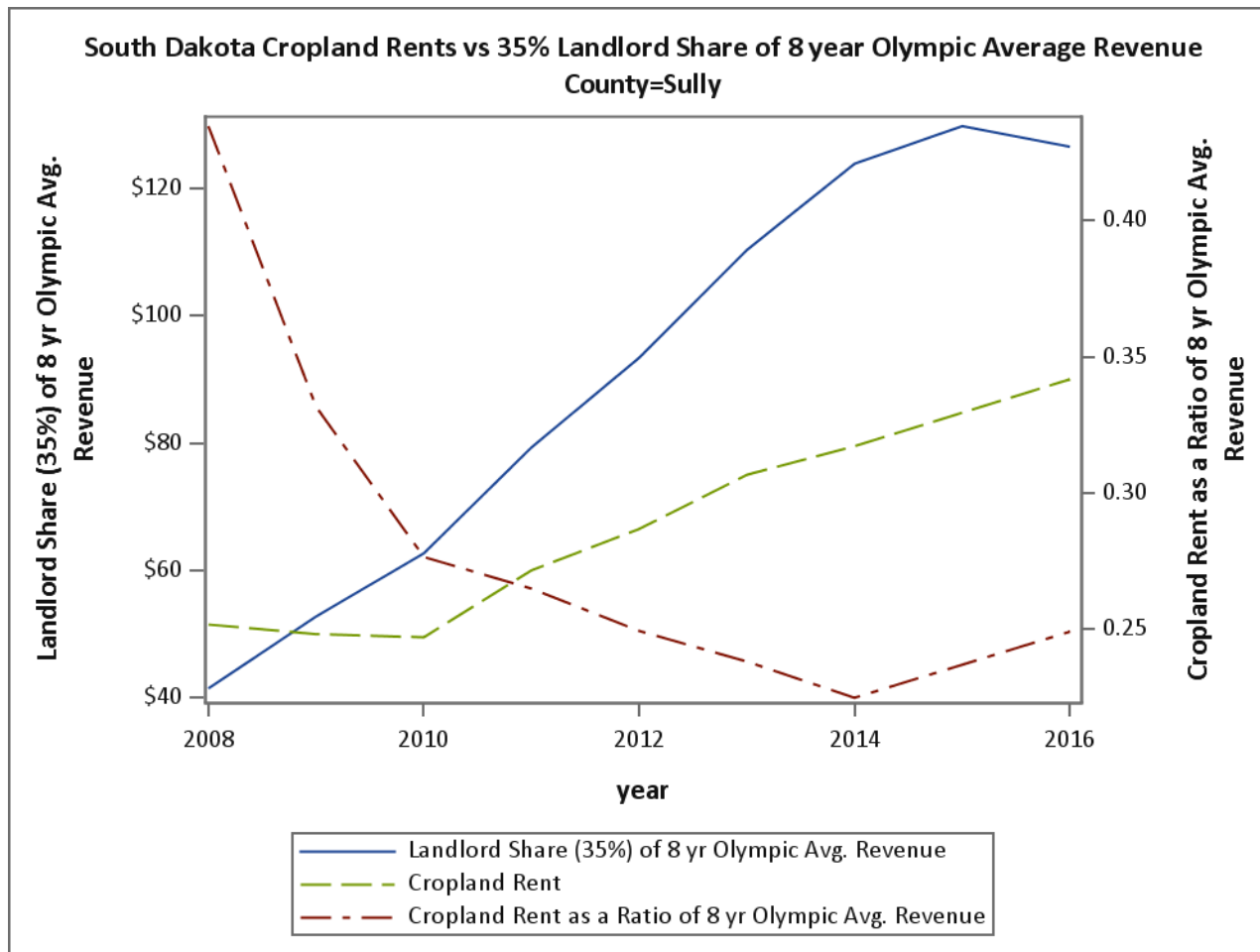
South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Shannon

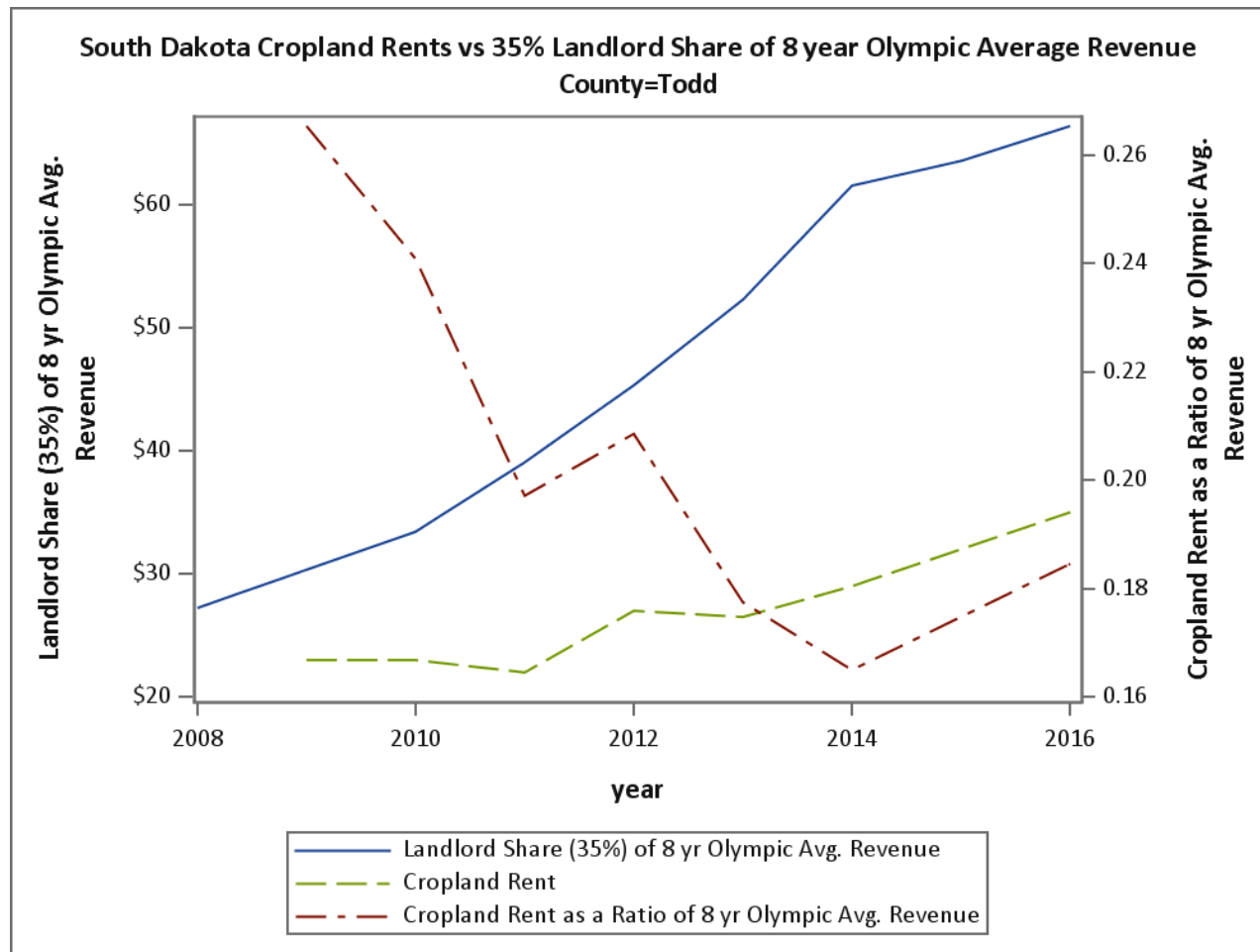




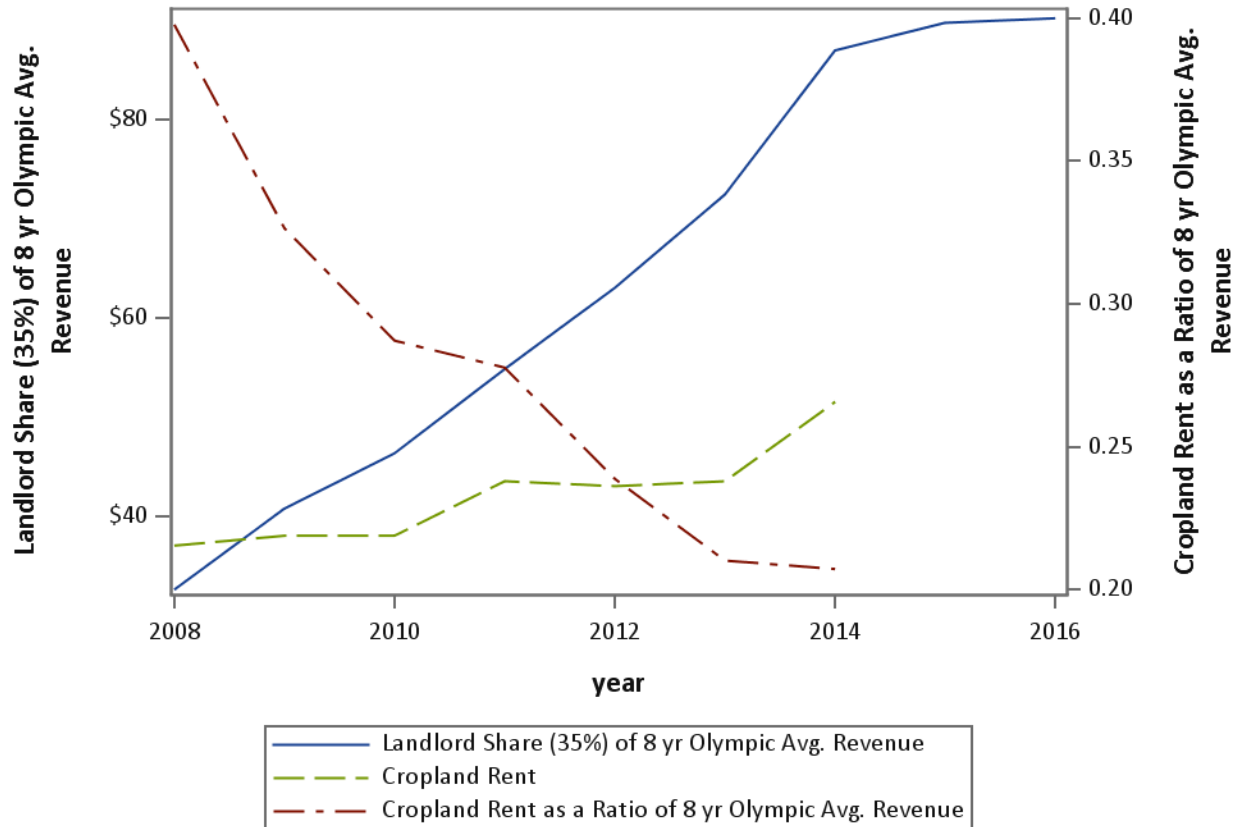
South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Stanley

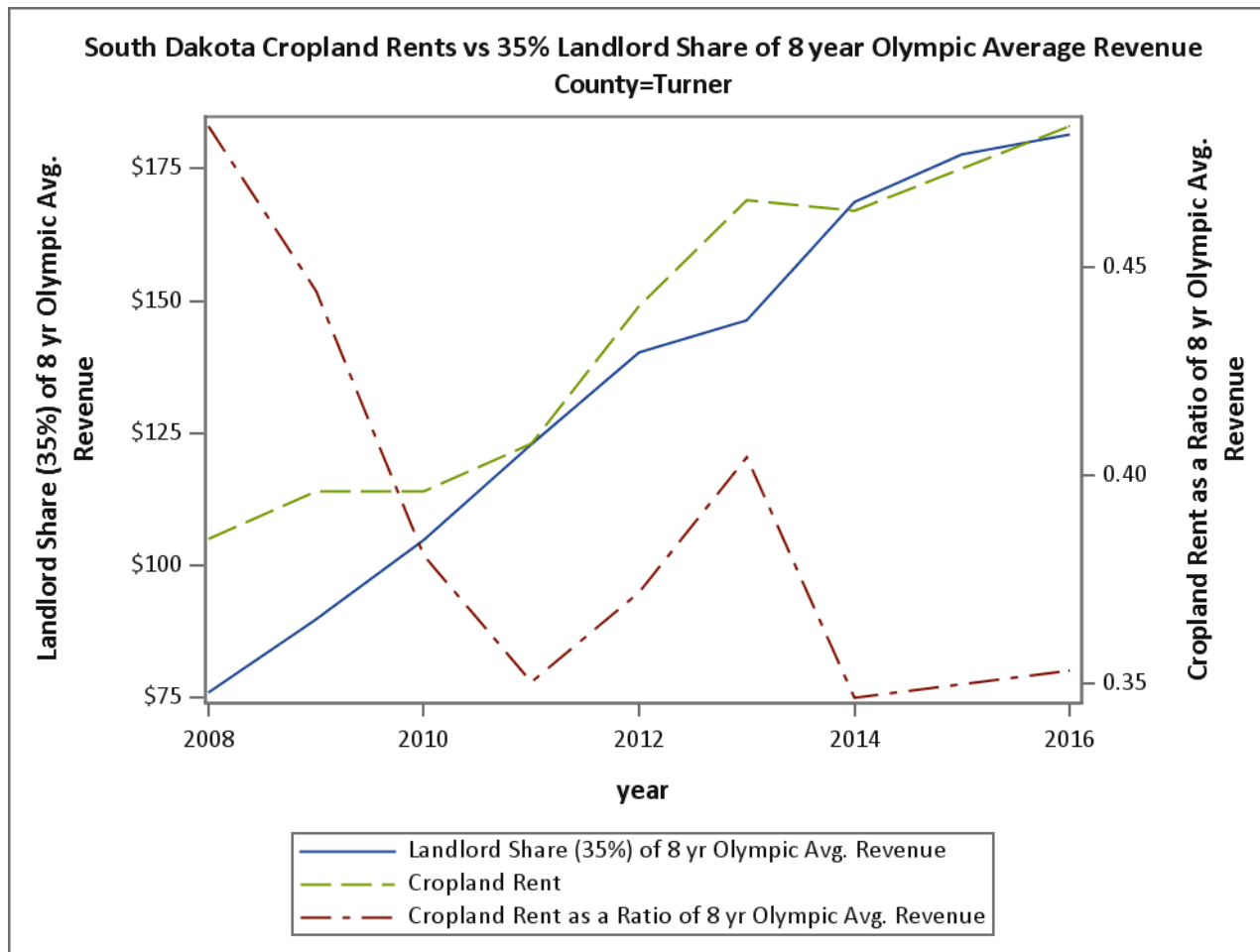


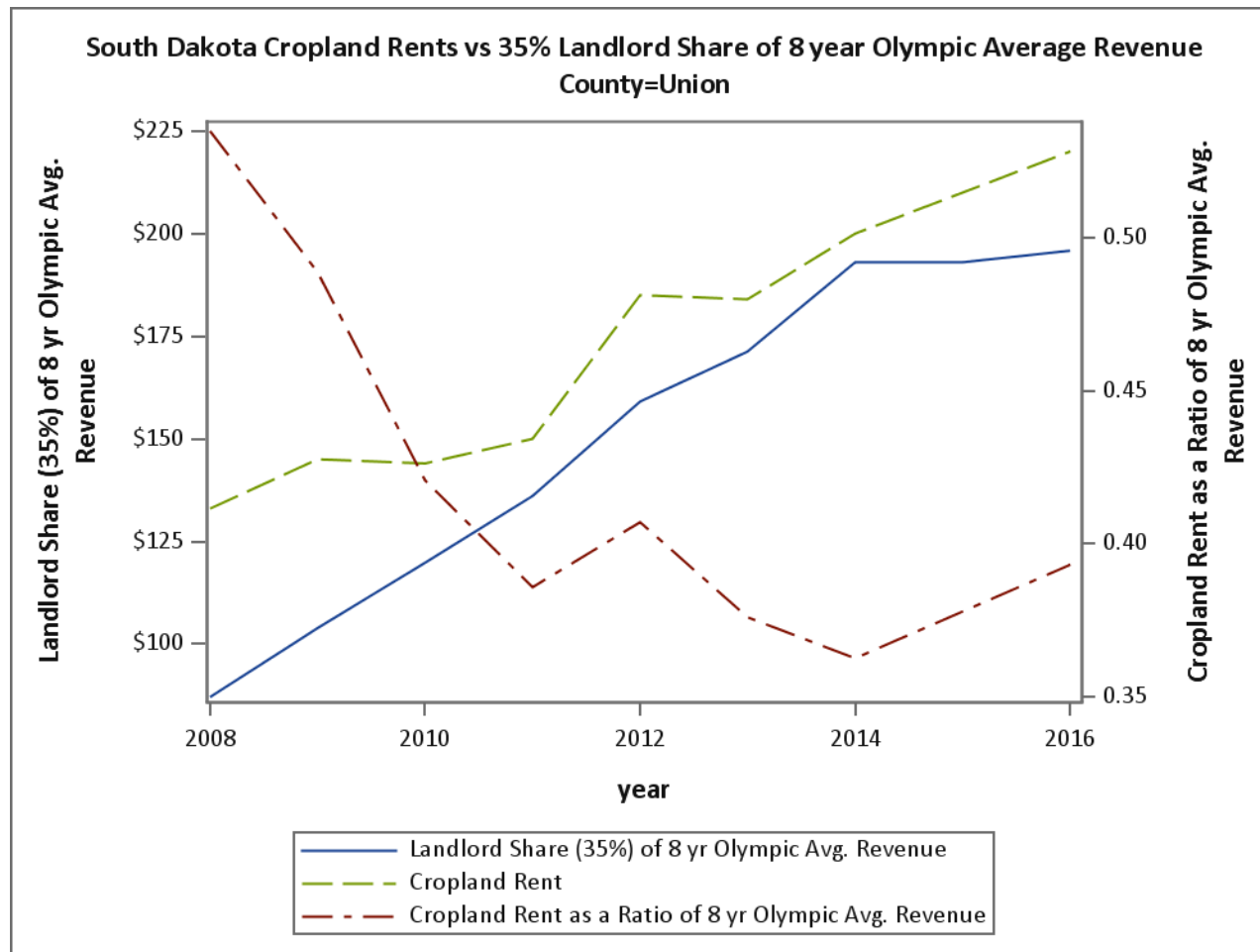


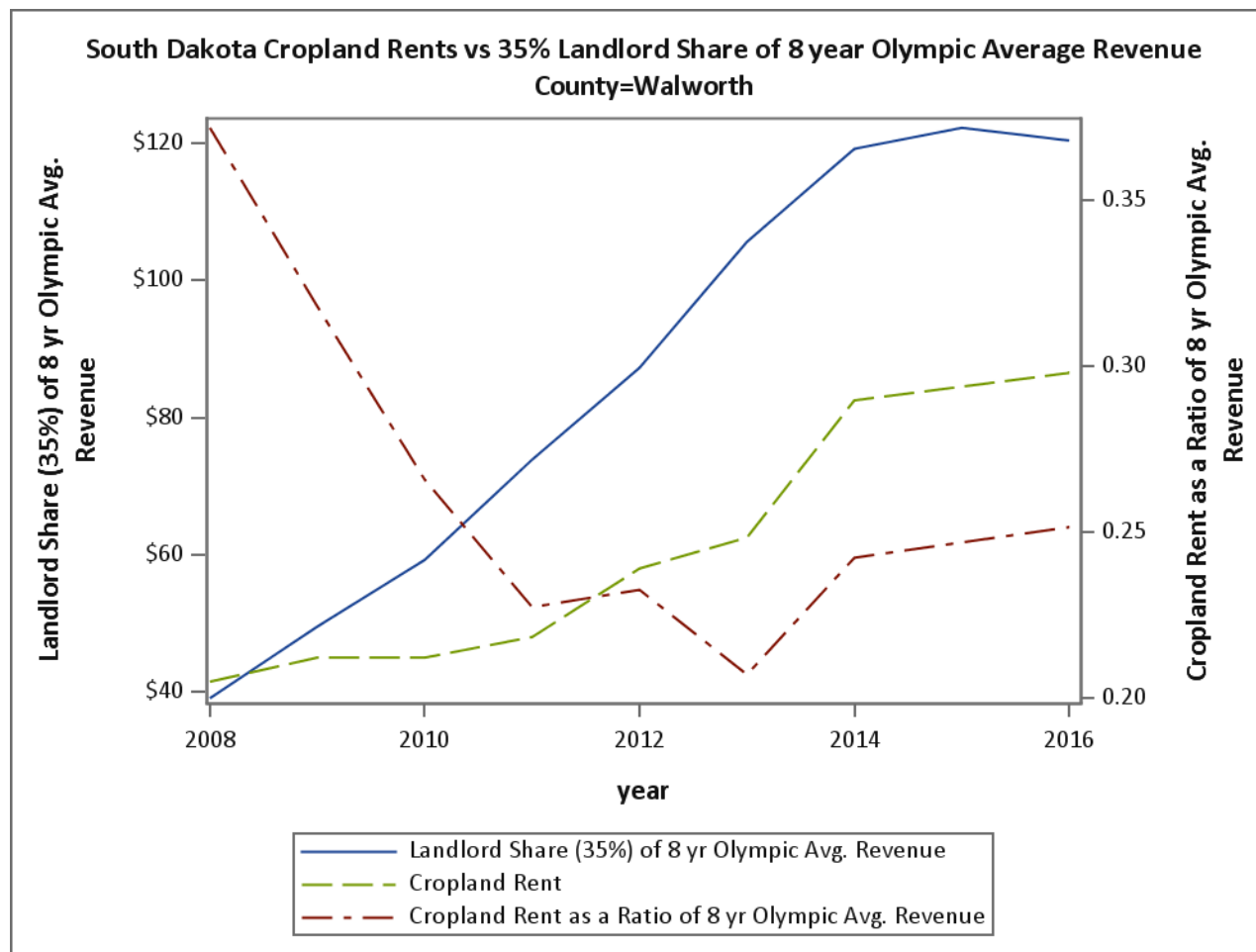


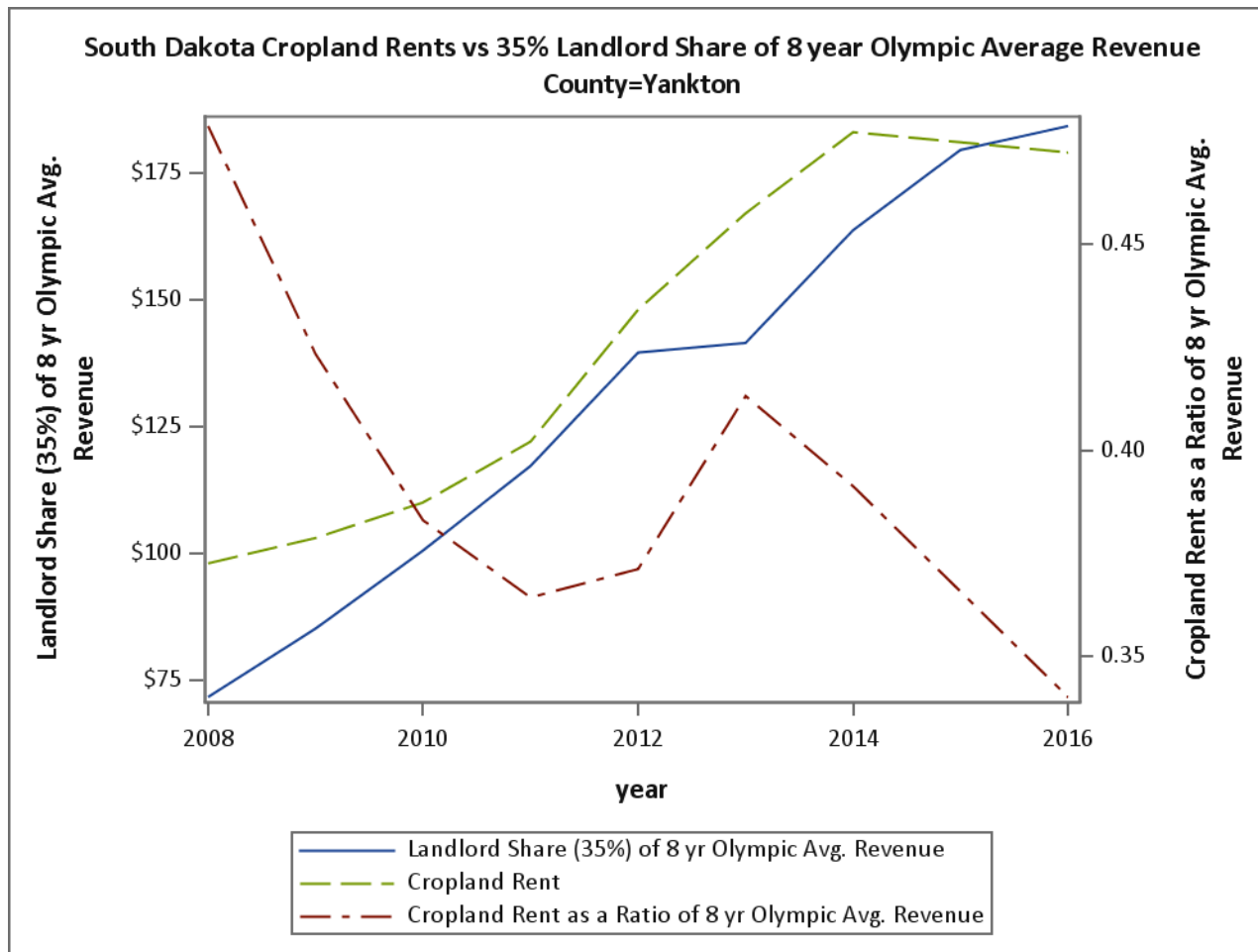
South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Tripp











South Dakota Cropland Rents vs 35% Landlord Share of 8 year Olympic Average Revenue
County=Ziebach

